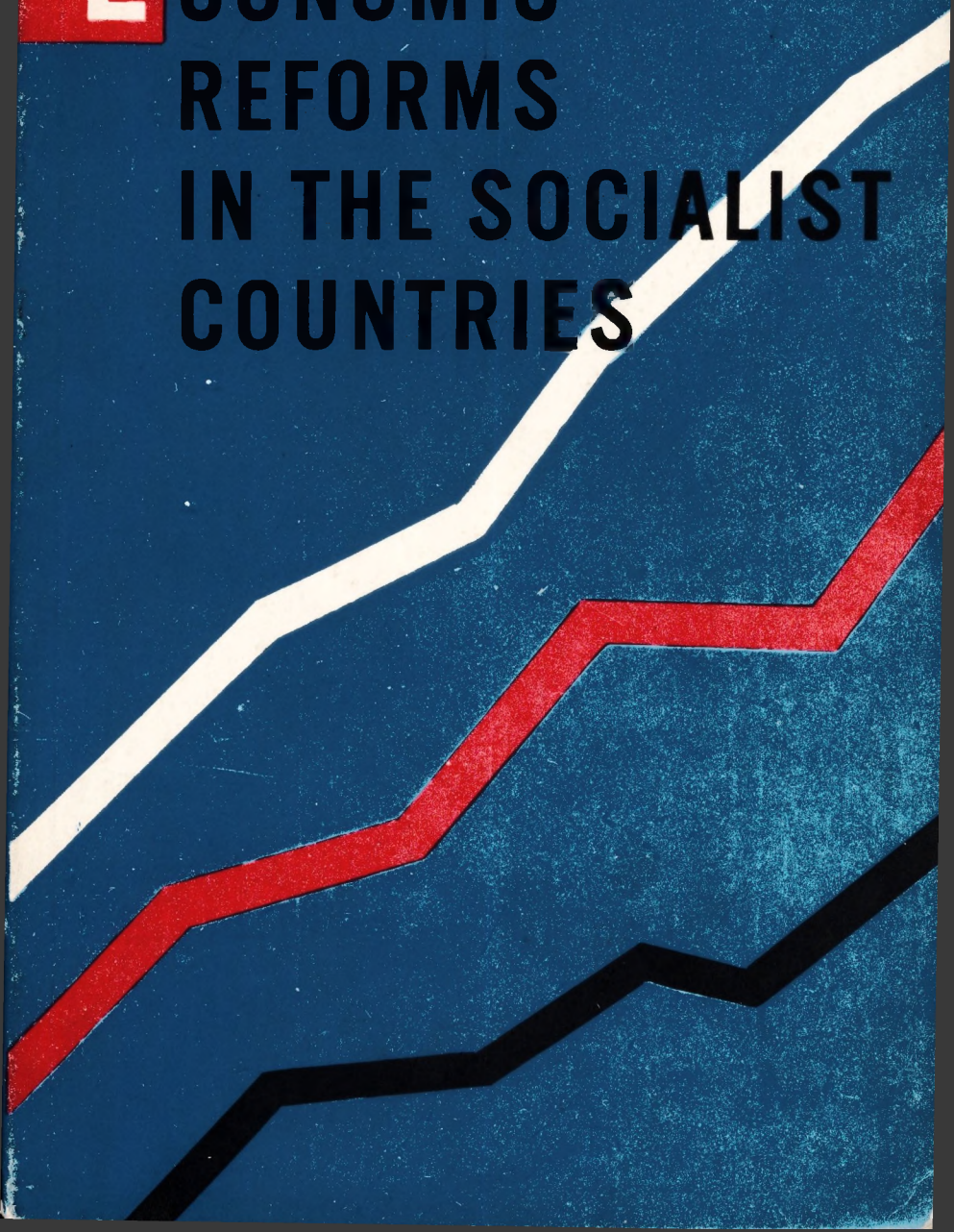


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**CONOMIC  
REFORMS  
IN THE SOCIALIST  
COUNTRIES**



# ECONOMIC REFORMS IN THE SOCIALIST COUNTRIES

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PEACE AND SOCIALISM  
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# Introduction

1967 is the 50th anniversary year of the October Socialist Revolution in Russia. One socialist state, Soviet Russia, its area 16 per cent of the earth's surface with about eight per cent of the world's population, came into being in 1917. Today the socialist community comprises 14 states occupying 25.9 per cent of the earth's surface with 35.2 per cent of the world's population. Such has been the progress of world socialism over the past fifty years.

The socialist countries have been developing their economy, notably industry, at high stable rates which, as a rule, surpassed those of the capitalist states.

The table shows that industrial growth in the socialist countries has been invariably higher than the world figure (which it increasingly affected) and higher, too, than in the capitalist and developing countries. By the same token, industrial growth in the Council for Mutual Economic Aid (CMEA) countries has exceeded that in the Common Market countries.

AVERAGE ANNUAL INDUSTRIAL GROWTH (%%)

	1951-65	1951-55	1956-60	1961-65
World Growth	7.2	7.9	7.0	6.5
Socialist countries	11.5	13.7	13.6	7.4
CMEA countries	10.8	13.6	10.1	8.5
Capitalist countries	5.6	6.3	4.4	6.0
EEC countries	7.1	8.7	6.9	5.8
Developing countries	8.1	9.4	7.9	7.4

The higher growth rate conditioned greater expansion of industrial production. Industrial output in socialist countries increased 460 per cent through 1950-66, while that of other countries increased a mere 140 per cent (130 per cent in developed capitalist countries and 260 per cent in developing countries). Figuratively, the socialist world took more than two steps forward in the time the non-socialist world took one.

Accelerated industrial development of socialist countries has tilted the scales of world industrial production. In 1937 the socialist countries accounted for less than one-tenth of the global industrial product, in 1950 for approximately one-fifth, and are now approaching two-fifths. The contribution of the

CMEA countries to world industrial output has climbed from 17.8 per cent in 1950 to about 31 per cent in 1966.

Economic *planning* has been the biggest contributing factor to rapid economic growth in the socialist countries. Planning, in fact, is one of socialism's greatest gains. For the first time in history, man has found a way of mapping and regulating development of the productive forces through cognition of objective economic laws.

Socialist countries are continuously improving the forms and methods of economic planning and management, bringing them into line with the new needs of production and socio-economic progress.

Over the past years, socialist countries entered a new stage of development. For the Soviet Union it was the stage of building the material and technical foundation of communism and for most of the other CMEA countries the stage of completing the building of developed socialist society, highlighted by a rapid and far-reaching world-wide scientific and technical revolution. These days, further growth of social production depends increasingly on steadily mounting labour productivity, efficient use of plant and on rational management. The quality aspect is gaining magnitude as the cardinal factor in socialist development. A higher labour productivity than in the capitalist world calls for more rapid technical progress, installation of the latest machinery, employment of up-to-date production techniques and renewal and modernization of production based on the current scientific and technological revolution.

The old system of planning and economic management was at odds with new productive forces, acting as a brake on scientific and technological progress and hampering the efficiency of social production. Having fulfilled its mission, it became obsolete and needed to be brought up to date. This is what nearly all the CMEA countries set out to accomplish by their recently instituted economic reforms.

Reforms are under way in Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland and the Soviet Union. The need for further improving economic organization and management was also stressed by the Ninth Congress of the Rumanian Communist Party in 1965.

In aligning economic management to the needs of the times, each country proceeds from its own experience, its specific economic conditions and historical features. However, a common

element is emerging gradually, although the concrete forms of the reorganization differ from country to country.

The principal common aim is to make better and fuller use of the advantages of socialist economy, actuate the potentialities of economic growth, make production more effective and thereby secure a further rise in living standards, increase the economic potential of the socialist system and move ahead in the competition with capitalism.

The new system of planning and economic management born of the reforms is based on the latest scientific developments and proper use of the objective laws governing the socialist economy, conforming wholly with socialist production relations and public ownership of means of production and paving the way to the further advancement of the socialist mode of production.

The main trends followed in the reforms are:

1. Consistent application and further development of the Leninist principle of democratic centralism in economic management, gearing centralised planning to greater economic independence, more extensive rights and broader responsibilities at factory level.

2. More material incentives for better production, bringing into harmony the interests of enterprises and those of the employee and stimulating workers' initiative and activity.

3. The accent in planning and management is being laid on a further advancement of the cost-accounting and profitability principle. The system of plan indicators is so designed as to secure rational proportions, on the one hand, and to offer scope for greater initiative, fuller and more effective use of funds, rapid technical progress and higher quality production at factory level, on the other.

4. Commodity-money relations and the socialist market are given greater scope as instruments of planned management, entailing better price fixing and improvement of the finance and credit system.

This is forging a more flexible system of economic management, facilitating the fulfilment of the basic economic targets of socialist and communist construction.



The economic reforms in the socialist countries, aimed at strengthening world socialism, have considerable international

impact. Hence the lively interest in them of both the friends and foes of socialism.

The bourgeois press has gone out of its way to misrepresent the substance of these reforms.

That, so to say, is the *raison d'être* of this collection, which presents between its covers slightly abridged reprints of Marxist studies of the economic reforms in the various socialist countries appearing in the journal *Problems of Peace and Socialism (World Marxist Review)* between 1965 and 1967.

The collection also contains reference material relating to the economies and economic development plans for 1966—70 of the countries concerned.

# The New System of Economic Management in Bulgaria

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EMIL KHRISTOV

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For the past two years work has been going on in Bulgaria to put into effect the new system of economic management. At first its application was in the nature of an experiment, limited in scale but essential from the standpoint of its socio-economic content.

The new system was devised in keeping with the decisions of the Eighth Congress of the Party (1962), which set the task of radically improving the system of planning and management.

## HISTORICAL ROLE OF THE PREVIOUS SYSTEM OF MANAGEMENT

The previous system of management, evolved in the course of the rapid socialist construction, enabled the country to recover from the postwar dislocation, to go ahead with industrialisation and to effect the transition from small peasant cultivation to large-scale socialist agriculture. By 1965 the gross national product had increased sixfold compared with 1939, and the national income almost fourfold. Bulgaria is now a modern industrial country, developing at a rate unprecedented in its history or in the modern history of those of its neighbour countries still following the capitalist road. The previous system, then, made it possible to achieve quite considerable success in socialist construction in an historically brief space of time.



However, the rapid growth of the productive forces calls for the further development and improvement of both production relations and the specific organisational forms, means and mechanisms on which these relations are based.

The economic mechanism used in building socialism is conditioned by objective economic factors operating in socialist economy and by the degree to which the objective economic laws are cognised and by the ability to use them consciously. They are, then, objectively conditioned as far as their basic features are concerned, although they also contain certain subjective elements. Even those forms which were objectively conditioned and subjectively correct at the time they appeared, i. e., corresponded to the needs of the situation, may in the course of the economic growth turn into forms that no longer meet the objective demands of economic laws, unless they are improved and adapted to the new economic reality. If the economic mechanism is not brought into line with economic exigencies in time, and if the objective economic laws are not properly cognised and used, this may become the subjective reason for the rise of contradictions between individual and group interests and the interests of society as a whole.

The system of planning and management used in Bulgaria for over two decades ceased to meet the needs of the new conditions and had to be radically improved.

What were the main drawbacks of the old system of management?

1. The old system of planning was based on excessive centralisation, which in the early postwar years was to a certain extent inevitable. At that time priority had to be given to rehabilitating the war-devastated economy, which meant completely centralising the allocation of resources and turning them to restoring and expanding the key branches. Basic materials, including raw materials, were in short supply, and normal commodity and trade relations had to be replaced by centralised administrative distribution. Shortage of skilled labour was another feature so that the most competent personnel had to be concentrated in the capital with a view to providing proper centralised leadership to the economy as a whole.

Another circumstance was the relatively low level of development of the productive forces, which made it possible to direct and plan (even in detail) the functioning of the enterprises from a single centre.

These conditions have changed. Since the restoration the

economy has been forging ahead at a steady rate. The industries now have skilled people who can be entrusted with the independent management of economic units. Expansion of productive forces has been so great that it is now impossible to guide all the enterprises from a single centre. By 1965 gross industrial output had increased 21-fold compared with 1939, capital goods production 52-fold, and consumer goods production 12-fold.

Given this development how can large and complex industrial, agricultural, building, transport, trade and other enterprises be directed from a single centre? The need to replace the almost completely centralised management by a more flexible system becomes obvious.

2. The old system tended to overlook value categories and such economic levers as prices, credits, profit and its distribution, taxation, tariffs and currency system, etc. On the whole it would be fair to say that to some extent it reflected a general underestimation of the operation of the objective economic laws of socialist society, in particular the operation of the law of value.

Let us take, for example, price formation and the utilisation of its mechanism. Under the previous system the requirements of the law of value were often disregarded. At one time capital goods were priced below cost of production. The policy was a deliberate one, and one of its purposes was to accelerate growth of output by selling cheap materials, power, and machinery to the enterprises.

The sale of plant to industrial enterprises at prices below cost led to a situation in which the output cost in the enterprises concerned proved to be an unrealistic index. As a result, profits and profitability, for their part, ceased to be a realistic index. Now one cannot properly assess the actual effectiveness of development of the various industries and enterprises on the basis of unrealistic prices, costs, profits and profitability. This, in turn, makes it difficult to ascertain the perspective and the branch structure of the economy, to determine the true place of the country in the international division of labour.

A mechanism of value categories ignoring objective economic laws, in particular the law of value, prevents us, therefore, from correctly planning the most effective proportions in the economy. And this leads to violations of the law of planned and proportionate development and the law of saving working

time and, ultimately, to slower progress in achieving the main aim of socialist production.

3. A big drawback from the standpoint of incentive under the old system stemmed from forms of labour remuneration that were not entirely in keeping with the fundamental changes in the social nature of the system brought about by the socialist revolution.

Under the old system the worker was paid for the work he personally did. His earnings were not affected by the end result of the performance of the enterprise as a whole. In other words, he had no direct material interest in the results of the functioning of the enterprise. Yet the socialist system must by its very nature arouse this interest.

The deeper the socialist relations of production become, the more obvious becomes the need to adopt a system of remuneration corresponding more fully to production relations of the socialist type, stimulating each worker's interest in the performance of the socialist enterprise, in the success of the effort of the entire personnel, and so creating conditions for the most effective and creative participation by the workers in running the enterprise, and in revealing all production reserves and potentialities with a view to securing the best results.

The economic reform now under way is aimed at removing these and other more or less serious shortcomings, at creating a system of management corresponding to both the higher stage reached by the productive forces and the social nature of socialist relations of production. "The profound significance of the new system," said Todor Zhivkov, First Secretary of the Party, in April 1966, "is that under it planning and management must and can take into account the operation of objective economic laws, that the new system makes it necessary and possible to achieve fuller co-ordination and community of interests of society, the collective body and the individual worker, to apply cost accounting to the full, provide greater incentives, which should be properly combined with moral stimuli, replace administrative by economic methods of management, and ensure that factory collectives participate actively in controlling production."

## HIGHER PLANNING STANDARDS

The new system of management, like its predecessor, proceeds from the fundamental idea that centralised and planned management under socialism is an objective necessity arising from the character of socialist public ownership of the means of production and the level of development attained by the productive forces.

To further the socialist economy, however, it is necessary steadily to improve both the principles of planning and the forms, ways and means used in applying these principles. If we want to raise the quality and the standard of planning, we must free the central planning bodies from the obligation of exercising petty tutelage over the enterprises in their day-to-day activities, and concentrate instead on the main problems of long-term economic development.

The problems facing the central planning bodies under the new system of management can be listed as follows:

a) The central planning bodies should draw up long-term trends of scientific and technological progress throughout the world and in our own country through comprehensive study and analysis of the operation of the objective economic laws of social development. These forecasts should also examine basic trends on the world market and draw conclusions applicable to Bulgarian conditions.

Long-term forecasts should also take into account the basic lines in the development of the social organisation of production in the broad sense, the perspectives of international division of labour, progress in the specialisation and co-ordination of production between and in the different countries, the development and prospects of concentration of production in its various branches and forms, the basic trends in organising production in the narrow sense of the term, including the perspectives of automation and the use of cybernetics in production.

Long-term prognostication should serve as the basis on which to work out criteria of the efficiency of particular industries in the conditions of our country and specify Bulgaria's place in the international division of labour, so as to utilise the national resources as effectively as possible, develop a highly effective branch structure, and achieve high rates of progress in the economy and in raising the standard of living.

Preparatory analysis of this kind will provide the basis for working out the general line of development specifying the guidelines and rates of development for the various industries, rate of increment of the gross national product and the national income, the distribution of the national income between accumulation and consumption, the main trends in investment policy of the state, and in its policy on prices, finance, credits, tariffs and currency.

b) It is necessary to replace what was predominantly administrative ways and means of establishing national-economic proportions by economic ways and means. This presupposes making fuller use—with a view to obtaining effective economic proportions—of such economic levers as price, profit, credit, interest, taxes, bonuses, customs tariffs, and forms of remuneration linking the wages of the individual worker to the end results of the enterprise as a whole. Co-ordinated and overall utilisation of economic levers should be aimed at creating a system of effective incentives for production staffs to draw up and fulfil realistic intensive and highly effective production and finance plans.

c) It is necessary to establish criteria for assessing the functioning of the enterprise that could also serve as criteria for incentives. Under the new system these criteria are no longer seen as fulfilment and overfulfilment of the plans approved by the higher bodies. Application of these criteria of assessment and incentive over the years has shown that they tend to make the enterprises lower their output sights. The new system of management is designed to use other criteria of assessment—actual growth of output and sales compared with the previous year, the actual profit received by the enterprise and its level of profitability.

d) The correlation of the functions of the central body and those of the enterprise in the matter of planning will change substantially. Fewer indices will come from the centre, and the enterprises will enjoy greater autonomy in drawing up and fulfilling their plans. Under the new system, only two indices will be planned centrally: the actual output of certain items and currency receipts from exports, as well as three limits: on investments, on basic raw and other materials, and on foreign exchange allocated for imports.

e) The system of planning cannot be appreciably improved without recourse to modern computing techniques and planning methods, including mathematical methods of planning with

the aid of computers and cybernetics. And one of the main problems to be solved by the central planning bodies in launching the new system is to introduce these methods at all levels and in every area of planning and, moreover, to do it speedily and on a large scale.

## MAKING FULLER USE OF VALUE CATEGORIES

The Ninth Congress of the Party charted guidelines for the transition from extensive to predominantly intensive economic development. This means that in the next few years we shall have to take a series of measures to increase labour productivity and raise each branch of the economy to modern technical, technological and organisational standards. But it also means considerably reshaping the structure of the national economy to press forward with the development of the more effective industries and enterprises.

How can the effectiveness of a given enterprise or industry be determined in the most generalised way? After much discussion practically all our economists reached the conclusion that in a country like ours the most generalised criterion of economic effectiveness should be the rate of profit, i.e., the relationship of the total profit to the cost of the production assets with which it has been gained.

However, rate of profit cannot perform its function as the measure of effectiveness unless the amount of profit included in the price of individual products is itself a real quantity. Profit included in the price of the product cannot, for its part, be a real quantity so long as the price itself is not real. And a real price is one that gains recognition on the market. In the case of a small country like ours, in conditions of the present-day highly developed international division of labour, recognition of the labour of Bulgarian producers on the world market will be decisive. This will be so because any attempt or effort by Bulgaria to develop modern specialised large-scale production cannot but go beyond the narrow confines of the home market and will be conditioned by recognition of its products and prices on the world market. Bulgaria's primary market is, needless to say, the socialist market. Nevertheless, our exports, and our imports, are largely affected by the situation on the capitalist world market and the markets of

the developing countries. Hence a fundamental aspect of the new system of management is to carry out a radical reform in the system of prices and price formation, to develop what is in effect a new price system, taking into account lasting trends and relationships in world prices for a longer time to come.

Obviously, assessment of the effectiveness of the industries in line with these conditions will lead to vital changes in the national economic structure, chiefly in the sense of greater leeway for the progressive industries according to the national peculiarities of the country. This will make it possible to achieve high productivity and cut production costs while maintaining high technical and quality indices, high profitability in terms of foreign exchange and internal revenue and high indices of accumulation, rapid expansion of production and a rapidly rising standard of living.

Implementation of this line will involve changes in other aspects of the finance and credit mechanism. It will necessitate a gradual renunciation of the gratuitous financing of investments out of the state budget, and its replacement by credits. The very need to repay the credits out of net profits will impel the enterprises to operate at a high rate of effectiveness enabling them both to repay credits and to make net profit. Besides, under this system, prospective investors who cannot repay credits out of funds obtained through their economic activity will be denied further credits. This will apply first of all to inefficient enterprises and branches.

Alterations in the mechanism of prices, finance and credit imply more active recourse to the stimulating role of profit in measures to improve the working of the enterprises. Under the previous system profits went almost entirely to the state budget, to be distributed among the enterprises on a centralised basis. This system had the advantage of enabling the state to concentrate considerable financial resources in its hands. On the other hand, it had the drawback of considerably discouraging the enterprises from making more profit and, consequently, from reducing costs and turning out quality production.

The new system replaces the old system under which profits of the enterprises went to the state treasury every year to be distributed on a centralised basis, according to long-term rates of distribution. Under the new system, the profit made by the enterprise is divided into three main parts. One part

goes to the state budget in the shape of a tax fixed beforehand. Another, in the form of deductions likewise fixed in advance, goes to the production fund of the enterprise, meaning primarily the extension and technical development fund. The remainder is spent directly on incentives for the personnel. The bulk of the latter is spent on raising wages and salaries, while the lesser part goes partly to welfare and cultural measures and in part to the wage fund of the enterprise.

Thus, profit distributed according to rates fixed beforehand and for a long term is a source of centralised accumulation for expanding production, introducing new capacities and technical improvements out of the funds of the enterprise itself, and a source of incentive. In its two last-mentioned functions, profit under the new system is used as a powerful stimulus for the enterprise and its personnel to do still better and to overtake as quickly as possible those home and foreign enterprises ahead of them technically, technologically and organisationally.

These changes, for their part, necessitate more active use than before of the tax system to regulate the accumulation of the enterprises and the growth of wages and salaries, and to encourage the most effective use of production assets.

Changes in the system of price formation, financing and the distribution of profit can be effective only if accompanied by changes in the remuneration system that will provide the personnel with direct incentives to achieve the ultimate financial results of the operation of the enterprise. This means that wage increases must be conditional on the enterprise making greater profit or, in general, increasing its income. Accordingly, the wage fund under the new system becomes a derivative quantity. It is now that part of the income earmarked for consumption and retained by the enterprise after deductions for the state budget and for its own production fund. Since the amount of deductions is determined by rates fixed beforehand, the better the results achieved by the enterprise, the greater the amount of income diverted to the wage fund.

With wages becoming a derivative quantity it will be possible considerably to increase the autonomy of the enterprise as regards planning labour and wages. The enterprise now has the right to regulate the number of its workers, plan the wage fund, establish work quotas depending on production conditions, and so on.



Turning the wage fund into a quantity conditioned by the income of the enterprise, and extending the autonomy of the enterprise in planning the wage fund do not signify any wage ratios between industries or between categories of workers. What is modified are the ways and means of regulating them. The state continues to keep an eye on changes in inter-industry wage ratios, and regulates these changes through taxation, prices, tariffs and bonuses; it establishes, moreover, certain basic rules obligatory in income-sharing matters in the enterprise.

#### EXTENDING SOCIALIST DEMOCRACY AND IMPROVING MANAGEMENT

The changes in the principles of financing and the distribution of profit and pay entail a revision of the role of the workers in managing the enterprise. It would be impossible to make the amount of pay conditional on the income of the enterprise and yet be reconciled to the present inadequate participation by the workers in the management of the enterprise. Since every worker has an interest in, and at the same time is responsible for, the economic performance of the enterprise, on which the amount of his wages depends, he should be in a position to exert a real influence on the entire course of economic activity in the sense of improving it. Workers should take an active part in managing their enterprise.

Production committees are one of the basic forms of worker participation in managing the enterprise under the new system. The production committee is a body elected by the workers, and at least 50 per cent of its members must be workers directly engaged in production. Through the production committees the workers take part in deciding such vital questions bearing on the functioning of their enterprises as the prospects for developing and improving production, improving quality, increasing profitability, distributing incomes properly, improving conditions of the personnel, etc. The production committee also assesses the result of the functioning of the enterprise and its various shops and sections. Its decisions, within the limits of its powers, are binding on the manager of the enterprise, who organises their execution and renders account to the committee.

The new economic management calls for a new approach

in the matter of appointing and promoting executives in the enterprises. The chiefly administrative method of appointing and promoting executives no longer meets the demands on the management by the workers. Hence, with the new system of management, public competition becomes the principal method of promoting executives. Competitors will be judged from the standpoint of educational standard, length of service, work record, and social work. The results of the competition will be considered by the production committee of the enterprise and the appointment of the prospective executive will then be endorsed by the higher government bodies.

The general trend of the new system toward greater economic effect presupposes efficient management of the various branches. Branch management under the new system takes the form of state-economic associations of the enterprises in the particular branch (industry).

The economic association provides management, co-ordinates and aids the economic functioning of the enterprises it groups, orientates the latter towards specialisation and co-operation, towards raising the technological standard of production to the highest standards achieved at home and abroad, organising production and labour on a rational basis, allocating raw materials judiciously, following a common trade policy on the foreign market, and so on. The association operates on the principle of cost accounting and is maintained with the deductions from the incomes of the enterprises under its jurisdiction. This means that the salaries of the branch managers depend on how high or how low are the incomes of the enterprises grouped in the association.

Control of the enterprises by the association does not deprive them of their autonomy. They themselves sign contracts with their contractors and draw up their production and financial plans on the basis of the contracts they have signed, and are responsible for their fulfilment. Changes in the income of one enterprise do not affect the incomes of the other enterprises in the same association.

The top body of the economic association, the decision-making body so far as the more important aspects of the policy of the association are concerned, is the economic council, composed of the managers and the chairmen of the production councils of the enterprises grouped in the association. The council must meet at least twice a year and its decisions are binding on both the general manager, who is the executive

head of the association, and the managers of the particular enterprises.

The new system substantially changes the functions of the ministries. Relieved of daily planning, control and tutelage over the economic functioning of the enterprises, the ministries are enabled to concentrate the effort of their more competent personnel of working out state concepts of the main lines of development for the relevant industries, on devising ways and means [primarily economic means] of speedily modernising the industries concerned in every way.



The new system of economic management in Bulgaria, which dates from 1964, has already passed from the experimental stage to that of widespread application. Last year the enterprises operating under it accounted for 65 per cent of the country's industrial output. It now encompasses all the branches under the ministries of light industry, the food-processing industry and engineering, all agricultural co-operatives and all state farms, retail trade in five regions of the country, and all road transport. This year will see trade and building as a whole gradually adopting the new system, and by 1958 it will encompass the other branches of the national economy.

What has the new system to show to date?

The forecasts of some bourgeois economists to the effect that the new system would result in abolishing planning in the socialist economy, in working chaos and ultimately in restoring capitalism in Bulgaria have not come true. This is evident from three years' experience, to say nothing of the theoretical untenability of the forecasts.

The past three years have shown that the enterprises working according to the new system have achieved better results than those still operating under the old system. They have had a greater increase in output compared with the increase gained in the years before the new system was adopted. Thus, 1966 saw the enterprises operating under the new system increase gross output 12.1 per cent, and net output 17.4 per cent against 1965. The percentages for the enterprises operating under the old system were 11.4 and 10.8 respectively. The enterprises run according to the new system have been making better use of production assets. Their staffs are searching for ways of bettering economic effect. As a result, these enter-

prises have supplied the state with more revenue in the shape of taxes than in the past, and more than the state had expected. In 1966 deductions for the budget from the incomes of these enterprises exceeded plan estimates by 11.2 per cent. Furthermore, the workers had bigger wage increases than their fellows in the enterprises still operating under the old system.

The beneficial results of the test enabled the Central Committee (in April 1966) and the Ninth Congress of the Party to pass a decision providing for the adoption of the new system throughout the national economy in the next few years.

There can be no doubt that steady extension of the new system, solution of the problems arising from it, and improvement of the economic levers and mechanisms now in use will wield still better results and will greatly promote the socialist economy of the People's Republic of Bulgaria.

## ECONOMIC DEVELOPMENT IN BULGARIA

### Area and Population

	1950	1960	1965
Area — 110,900 sq.km			
Average annual population (thousands)	7,251	7,867	8,200
Natural increase per 1,000 population	15.0	9.7	7.2

### Average Annual Growth Rates of National Income and Aggregate Output in Industry and Agriculture (%%)

	1951-1965	1951-1955	1956-1960	1961-1965	1966
National Income	9.5	12.2	9.8	6.7	11
Industrial Output	13.8	13.7	15.9	11.7	12.2
Agricultural Output	—	6.5	5.7	3.1	15

### Industrial Growth Rates in 1961-1966 (percentage change from previous year)

1961	1962	1963	1964	1965	1966
12	11	10	10	15	12.2

### Output of Key Industrial Items

	Units	1950	1960	1966
Electric power	000 million kwh	0.8	4.7	11.7
Pig iron	thousand tons	3.1	192	871
Steel	"	5.1	254	699
Rolled stock	"	6.1	193	484
Machine tools	thousands	0.9	3.1	9.2
Power trucks	"	—	3.1	17.4
Electrically-driven telphers	"	—	4.3	23.7
TV sets	"	—	0.4	90
Washing machines	"	—	38.1	125
Sulphuric acid	thousand tons	—	123	353
Mineral fertiliser	"	—	125	369
Plastics and synthetic tars	"	0.4	7.3	39
Cement	"	602	1,586	2,851
Textiles	million sq.m	87.3	228	313
Sugar	thousand tons	36.9	171	354

### Growth of Average Monthly Wage in State-operated Industry and Industrial Co-operatives (1950 as 100)

	1955	1960	1965
Factory and office workers	146	177	211
Factory workers	146	178	209

### Growth of Labour Productivity in Industry (1950 as 100)

1955 — 143

1960 — 177

1965 — 249

### Output of Key Agricultural Product (in 000 tons)

	1950	1960	1966
Grain and leguminous crops	3,265	5,020	6,938
Wheat	1,757	2,379	3,173
Sugar beet	332	1,650	2,424
Tobacco	41.8	61.9	120
Meat (slaughter weight)	199	307	484*
Milk	666	1,115	1,388*
Eggs, million pcs	563	1,202	1,402*

\* 1965 figures.

**Growth Rates of Aggregate Agricultural Output in 1960—1966**  
(percentage change from previous year)

1960	1962	1963	1964	1965	1966
3.4	4.6	2.2	11.8	1.5	15

**Yields and Productivity**

	1950	1960	1966
Wheat yield, centners per hectare	12.1	19.0	27.8
Output per 100 hectares of farmland, in centners:			
meat	34.8	54.2	80.1*
milk	116	197	240 *

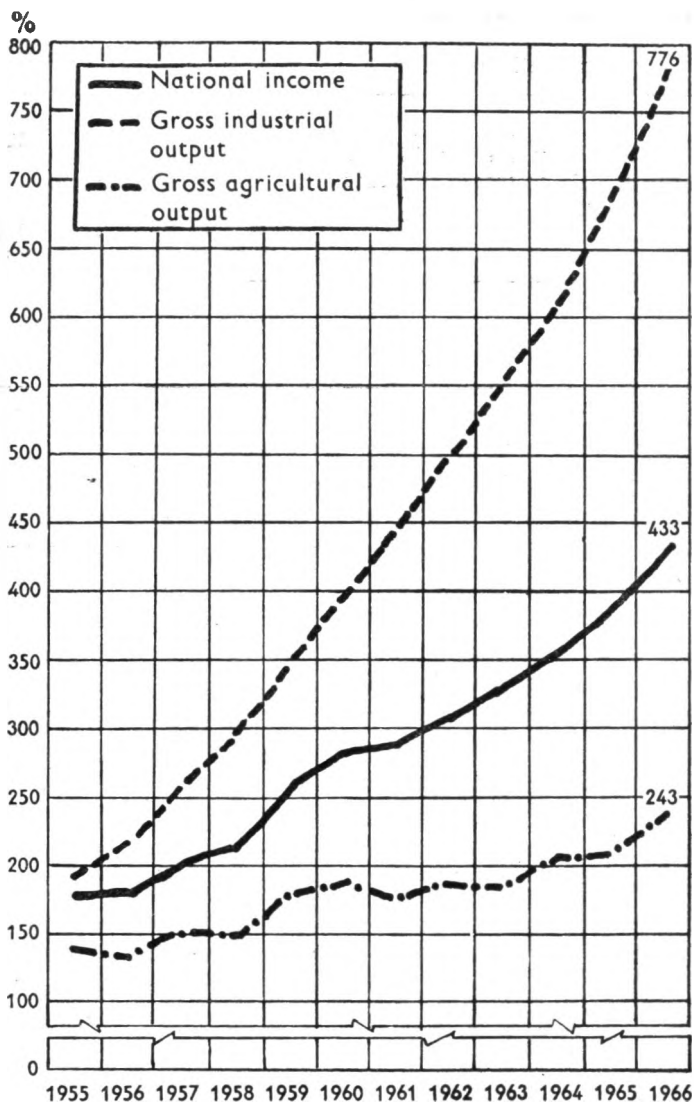
\* 1965 figures.

**Education and Public Health**

	1950	1960	1965
per 10,000 population:			
university students	42.5	69.6	102.7
doctors	9.2	17.0	20.0
hospital beds	39	64	71

# **The dynamics of the national income, gross industrial and agricultural output in Bulgaria**

(in comparable prices; 1950 as 100)



## BULGARIA'S ECONOMY IN 1966—1970

The main task formulated in Bulgaria's fifth five-year economic development plan for 1966—1970 is to continue the building of socialist society by further expanding its material and technical base, improving socialist relations of production, enhancing the socialist consciousness of the people and, as a result, elevating the standard of living.

The main stress in the plan is on intensifying and modernising the nation's economy, improving its structure, raising the productivity of labour and the general effectiveness of the economy through broad application of the achievements of modern science and technology and by new methods of management in order to satisfy more fully the material and cultural requirements of the people.

In 1970 Bulgaria's national income is expected to be some 50 per cent higher than in 1965, with aggregate industrial output expanding 70 per cent and that of agriculture more than 30 per cent. In the five years, real incomes are to rise by more than 30 per cent.

Industrial development in the fifth five-year period is highlighted by accelerated growth rates, growth in scale and output, and by progressive structural changes improving proportions both between and within the various branches of industry. By the end of the five years industry will account for 65—70 per cent of the social product and for about 52 per cent of the national income.

Especially high growth rates are envisaged in heavy industry, chiefly those branches of it which secure scientific and technological progress for the nation's economy and have the greatest bearing on the further building of the material and technical base of socialism, such as power, metallurgy, chemicals and engineering.

New power stations of approximately 3 million kilowatts will go into operation within the five years, with power production mounting to 21 000 million kwh or by over 100 per cent against 1965. The iron and steel industry is to expand output by some 200 per cent. This means that in 1970 Bulgaria will produce 1 800 000 tons of iron and 2 300 000 tons of steel. Output of chemicals will increase by more than 200 per cent and that of the engineering industry by about 150 per cent. The share of the engineering industry in the country's gross industrial product will climb from 16.5 per cent in 1965 to 23



per cent in 1970. Consumer goods production, too, will expand by more than 50 per cent.

The principal aim in agriculture is to continually raise the productivity of labour. Grain output is to be increased 40 per cent, and the productivity and profitability of animal husbandry is to go up substantially. So is the degree of mechanisation of all farm jobs.

# Czechoslovakia's New System of Economic Planning and Management

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The Central Committee of the Communist Party of Czechoslovakia agreed at a meeting in January on the basic guidelines for improving the planned management of the republic's economy. This was in line with the decisions of the Party's Twelfth Congress to put the economy on a more intensive footing and to organise its management along scientific lines.

The draft for the new system was the product of months of preparatory work by a large number of economists, research workers and executives under the guidance of the Central Committee and its Presidium. This preparatory work was accompanied by a full and lively discussion in the Press and at meetings and conferences of research workers and executives.

From the outset the common aim was to find the methods and forms of planning and management which would best facilitate the implementation of Party policy in the sphere of the economy as well as of social development generally.

As the exchange of views developed it became increasingly clear that the old system of management, based mainly on directives from central bodies handed down the administrative ladder, had to be replaced by a *comprehensive and economically sound system of management*. This was fully borne out by a thorough analysis of the past development of our economy, especially in recent years. In this article we propose to give a brief survey of the work done along these lines.

Czechoslovakia's economic progress since the liberation and the establishment of people's democratic government is clear proof of the advantages of socialism. The national income in 1933 rose to 160 per cent of the 1937 level, with industrial output increasing 4.8-fold. From the completion of the post-war rehabilitation, as a result of the fulfilment of the 1947—48 two-year plan, up to 1960 the average annual rate of growth of national income was 8 per cent, and of industrial production, 11.6 per cent. As the building of socialism progressed, the standard of living rose considerably, workers' real wages rising in 1963 to 122 per cent of prewar. The industrial potential of socialist Czechoslovakia substantially exceeded that of the prewar bourgeois republic, which already then ranked among the industrially developed countries (it accounted for 1.6 per cent of the world industrial output in 1937).

But the comparatively rapid growth rate notwithstanding, the emphasis on extensive rather than intensive development resulted in a lag in efficiency. It was, needless to say, necessary to expand production facilities, to build new capacities and enlarge the old, and to bring more manpower into industry but for all that, exhaustion of the extensive sources of output growth made it imperative to turn to intensive development for the sources of greater efficiency which the existing system of planning and management had failed to reveal. By the sixties the economy, together with the continued lag in efficiency, began to lose its dynamic quality. It became obvious that the existing system of management could not ensure the needed radical and lasting upswing in the economy.

There are times, in particular the transition from capitalist to socialist economy, when strict centralised management is necessary. Centralisation helped us to accelerate the social and structural reconstruction of the economy and to ensure progress along socialist lines at a time when the class composition of the managerial personnel underwent a radical change, and it facilitated rapid equalisation on the economic levels in the various parts of the country. But as socialist economic development gradually got into its stride, the rigid centralised planning and management became the main impediments to greater efficiency.

Let us examine more closely the connection between the negative phenomena in the development of our economy and the methods of management.

Investments, which the socialist state finances, through

centralised channels, from the revenue from enterprises and their accumulations, went into expanding the production facilities, i.e., building *new* factories and producing and installing *additional* machines. This left less and less for *renewal and modernisation* of existing plant. The newly-built capacities, however, did not compensate for the diminishing returns caused by the ageing of the old plant. As a result, investments, despite their steady growth, proved less and less effective. This became evident, for instance, in the slow-down in the rate of growth of the national income in relation to the basic production fund.

In some branches, manufacturing for instance, the technological lag seriously retarded growth of labour productivity, which practically ceased in 1962—63. This pointed to the imperative need to make more intensive use of the funds earmarked for capital construction.

The sources for augmenting the labour force likewise had to be thoroughly examined. For a time it was possible to maintain the rate of growth of production by getting housewives to go to work and enlisting in the industrial labour force people formerly employed in agriculture and other branches. But when these sources were exhausted it became more imperative than ever to place the emphasis on higher productivity. More, Czechoslovakia experienced what may be called "over-exhaustion" of manpower sources—above all the enlistment in the production process of housewives at a time when the conditions for this had not been properly prepared by adequate expansion of public services (creches, nursery schools, school canteens, etc.). Nor was the time ripe for the transfer of part of the agricultural labour force to industry since all-round mechanisation and chemicalisation had not been carried far enough to compensate for the outflow of manpower.

Another problem of recent years has been the unfavourable trends in the production structure, both the macrostructure—the proportions between branches of industry—and the microstructure—the ratio between the output of various items within each branch.

Bourgeois propagandists have given a distorted picture of our critical analysis, claiming that the postwar changes in the macrostructure, effected mainly during the first five-year plan, did not meet the requirements of Czechoslovak economy. The facts tell a different story. It was the conditions and require-

ments of the time which compelled us rapidly to increase the share of engineering in industry as a whole, and primarily the share of heavy machine-building, as the basis for expanding industry, gradually bringing the economic level of Slovakia to that of Czechia, advancing along socialist lines unencumbered by dependence on the imperialist powers, rendering industrialisation aid to fraternal countries and, lastly, steadily increasing our foreign trade. The shortcoming, especially in recent years, was the continued "extended reproduction" of the same macrostructure without taking due account of the country's natural and economic conditions.

What we criticised, then, was not the post-war changes in the structure of industry but the insufficient flexibility we displayed in effecting further adjustments of both the macro- and the microstructure. For a country possessing a relatively advanced industry but poor in natural resources, and hence compelled to import a substantial part of its raw materials, and with a relatively restricted home market not permitting sustained highly efficient quantity production, foreign trade is a pre-condition of economic progress. It was this consideration that was not sufficiently reckoned with in recent years, and the resultant loss to the economy was aggravated by the difficulties encountered in supplying the population and the economy as a whole with home-produced agricultural products.

The structural trends were unfavourable not only from the standpoint of the correlation of foreign trade and the economy as a whole. At the same time negative elements became more pronounced in the balance between the structure of (supply) and the structure of requirements (demand). On the one hand, the output of less essential and even unnecessary items often expanded in both the spheres of means of production and the sphere of consumer goods (as can be seen from the steady piling up of unplanned stocks), and, on the other hand, the list of items in short supply grew longer. In a word, it became clear that the national-economic balance was being upset more and more both in the macrostructure and the microstructure.

An examination of the facts left no doubt that the existing system of planned management not only was unable to ensure the overcoming of the contradictions between the production and consumption trends, but that, moreover, the system of central management relying more and more on purely admini-

strative methods deepened the discrepancies between the structure of production and the structure of requirements. The existing methods of planning and management, by setting the enterprises quantitative targets through directives, prompted them primarily to increase output measured in terms of gross or marketable production or by other similar yardsticks. This led to enterprises frequently expending funds and materials uneconomically, lack of co-ordination in the production of certain items, and unjustified import of raw materials and other items.

The one-sided drive for more output, for quantitative targets, was accompanied by a lack of sufficient stimuli to improve technology, go over to the use of new materials, and turn out better and more up-to-date goods. The slackening of the qualitative aspect was, broadly speaking, the result of obsolete methods of management. One-sided and insufficiently realistic plans and the objective material interests of the enterprises and their personnel both tended to retard technological progress, modernisation of output, and rationalisation of production.

Creative development of economic thought in Czechoslovakia and in the other socialist countries made it easier to draw the correct conclusions from this critical analysis, aimed at getting to the root of the negative phenomena evident in Czechoslovak economy in recent years and working out a comprehensive solution. The decisions of the Twentieth Congress of the CPSU, and the progress made in the social sciences, including political economy, since the late fifties in all the socialist countries, made for a deeper theoretical examination of economic relationship under socialism, fuller clarification of the nature and specific features of which is essential for social progress.

An approach which proceeds not only from practical experience as such but also from profound theoretical conclusions based on studies made over the years, the generalisation and thorough analysis of one's own experience and its comparison with the experience of other socialist countries, is in the very nature of the Marxist movement. Today Marxist theoretical *analysis*, which has always given the Communist movement the advantage over all other political movements and won it the respect of ideological opponents, is once again coming into its own.

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Analysis and research have given us, and the economists of the other socialist countries, a deeper understanding of the nature of socialist economy, and enabled us to work out the necessary methods of planned management. The most important of the new conclusions is the *interdependence of socialist planning and the socialist market*. This conclusion, which has been thoroughly substantiated in our country, puts an end to what was until recently a deeply rooted misconception.

Until recently, the connection between planning and the market was incorrectly understood and the concept of the market was applied to the socialist economy in a sort of shamefaced way. It was held, wrongly, that planned social co-ordination, planned management of production, was the absolute antipode of orientation on the market, of utilising market levers. Planning was assumed to be an attribute of socialism alone, and production for the market a feature solely of capitalism. These tenacious theoretical premises brought much harm; because of them a system of planning and management was adhered to which meant that production could not be adequately geared to its proper aim—that of satisfying the home and foreign market demand—and consumers could not exert any direct influence on the producers. The result was disproportion between production and requirements, between the labour expended and its results in terms of consumption.

In the light of this the difference between capitalist and socialist economy was not accurately defined. For the difference does not consist in production under capitalism being necessarily geared to the market whereas under socialism the market plays no role whatever. Socialist planned production should consistently seek to satisfy the market demand, and sales of goods on the market should be the main criterion of the social usefulness of the labour expended in the production process.

Means of production should also be regarded as commodities, bought and sold by socialist enterprises, with only minor quantities of goods in short supply being directly distributed in exceptional cases to meet priority needs. The market they enter is a specific type of market—a market of socialist enterprises. It is not only a matter of the plan anticipating future market trends and the production programme being adjusted accordingly, but of the actual

demand introducing amendments in production programmes drawn up in advance. Production which does not satisfy actual demand cannot be said to be socially necessary production even if all is well with the fulfilment of planned targets.

But this does not mean that there is no difference in this respect between socialist and capitalist economy, that we should re-examine our Marxist principles. There is a difference in *quality* between the two economic systems. We must make it quite clear, especially in the light of bourgeois propaganda which is distorting the meaning of our reappraisal and of our solutions, that neither in theory nor in practice have we ever equated the socialist economy with the capitalist economy. Some bourgeois propagandists, indulging in wishful thinking and interpreting our views and solutions as a departure from socialist economics, as rejection of socialist planning and a return to capitalist commodity relationships, even as a gradual transition to capitalist enterprise, have ignored the fact that what we are talking about is *socialist* commodity-money relations, the *socialist* market and *socialist* enterprises, and that this is what fundamentally distinguishes our economy from the capitalist economy. Our production differs from capitalist production not in that it should not meet the requirements of the market, but in that it is a *different* kind of production catering to a *different* kind of market, and, lastly, because the way in which we seek to achieve harmony between socialist production and the socialist market differs from the capitalist way, from the machinery of the capitalist economy. Our production enterprises are socialist working communities, relatively independent links of a broad producers' co-operative embracing the whole of society. Historically speaking, capitalist enterprise in our country is a thing of the past. Our market is a socialist market for socialist production enterprises and trading organisations exclusively. In effect, the means of production are sold only to socialist productive units, and this rules out the possibility of the restoration of capitalist production.

Lastly, harmony between production and the market is achieved primarily through long-term plans determining not only the main trends and structure of production, but also the basic trends of the home market. And the fact that these plans basically define the distribution of the national income in conformity with the fundamental interests of all working people, that they determine the movement of prices for the



basic goods, predetermines also the general trend and structure of demand. Consequently, socialist planning will continue to be the basic means for dovetailing production with the prospective market.

In order to accelerate the progress of the socialist economy, to heighten its efficiency and to make full use of its real socio-economic advantages, we believe it necessary:

(1) to bring the market to bear more effectively and directly on our production and trading enterprises, within the limits of economic plans;

(2) to promote commodity relationships also between socialist state-owned production enterprises;

(3) systematically to do away with all the wrong administrative methods of planning and management which impeded orientating production on the market and acted as a brake on the development of socialist commodity-money relations.

Socialist commodity-money relations and the removal of all obstacles in their way will enable the enterprises not only to *satisfy the demand more rationally*, but also to give effect more consistently to the principle of *maximum economic expediency* in production and consumption.

In this connection it is necessary to dwell in detail on the theoretical implications and practical application of *cost accounting*. Formerly cost accounting, both as a theoretical proposition and a concrete method of management, tended to be reduced to formal accounting operations. Its basic function, which Lenin defined as the use of material incentives to raise the efficiency of production, was ignored. In the period of the Stalin cult the material interests of the enterprises as communities of producers were disregarded more and more. While formally cost accounting was practised, the material stimuli to reduce production costs and increase the quantity of values produced and realised, and corresponding to the consumer demand, diminished.

True, the enterprises formally kept account of the cost of production, income and profit, but:

(1) their income did not depend on meeting the actual needs of the customer, their planned production was not co-ordinated with consumer demand, and the consumers were often obliged (by both economic and administrative pressure) to take things they did not need;

(2) the income of the enterprises was no indication of the actual value of their products, since the prices were not consistent with it. Price-fixing was largely arbitrary with the result that prices ratio did not correspond to value ratios, nor the dynamics of prices to the dynamics of value. Because of this some enterprises showed a loss and others a profit irrespective of performance;

(3) enterprises were provided funds for wages and bonuses and for other reproduction needs depending on the fulfilment of one-sided plan indices, but without regard to value actually created. Even when goods remained unsold in the warehouses, or when they had to be sold on the home market, and even more often abroad, at far less than value, the enterprises continued to receive the planned funds for wages and needs of reproduction generally.

Commodity relations and categories, including cost accounting, became a pure formality. A radical turn had to be effected in this respect.

Socialist commodity-money relations and the method of management which these relations entail, i.e., cost accounting as understood by Lenin, imply that each enterprise must not only realise the actual value of its products through sales but in realising this value also cover the expense of reproduction, including expenditure on wages. The time has now come fully to observe this principle.

Let us now examine the new model which the Central Committee of the Party endorsed after thorough consideration of numerous drafts.

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Needless to say, the long-range prospects of economic development will be mainly determined by the general state plan. Socialist planning will thus continue to draw on the advantages accruing from guidance of the basic economic processes from one centre.

Only a central body is able to ensure, through a *long-range* plan, the proportional development and the necessary structural changes in the economy. The long-range plan deals primarily with basic capital construction in conformity with the macrostructural requirements, the main trends of technological progress, volume of output of the most important items, especially those in short supply, the correlation of

international division of labour and the Czechoslovak economy, primarily from the standpoint of fulfilling long-term agreements with other socialist countries, the perspectives as regards the structure of the labour force and its skills, and, lastly, the principal trends in the distribution of the national income which determine the basic economic proportions.

As distinct from the hitherto existing practice, the new system of management allots only a minor role to directives from the top, i.e., obligatory production indices set by the central body for subordinate managerial levels, primarily for the enterprises. Instead, the macro-economic objectives will be achieved by setting a minimum of direct obligatory assignments and providing the lower levels with adequate information as guidelines. The interests of the enterprises and the interests of society will be harmonised by means of the overall state plan and a system of rules and levers necessitated by commodity-money relations.

A basic consideration is that socially necessary production can be more effectively promoted by cutting down on the number of obligatory targets set from above and ensuring that it will be in the interests of the enterprises to choose production targets meeting the needs of society and the national economy. The enterprises should be provided with incentives not only to increase output and raise productivity but also to improve quality.

To this end, the managements of enterprises or industries should have a hand in working out the five-year plans as well as the long-range plans and forecasts. The interests of the enterprises and their attitude to plans are bound to change considerably when commodity-money relationships are put on a correct footing. It is common knowledge that in the past enterprises sought to obtain maximum allocations for investment irrespective of the anticipated returns, and as big a labour force as possible, while keeping production tasks to the minimum. Owing to this, plans were finalised largely on the basis of subjective considerations and compromises between various management bodies. Under the new set-up the enterprises will strive for optimal plans so as to make the most effective use of the productive forces.

In compiling short-term programmes, especially annual or bi-annual plans, the main role will belong to the management bodies in the various branches of industry. Guided by the long-range plan and prompted by centrally established and

controlled economic stimuli based on commodity-money relations, they will of course be interested in ensuring utmost efficiency. The central bodies, needless to say, will see to it that the short-term plans accord with the perspectives of the economy as a whole. The central planning bodies will then chart the optimal lines of development, introducing readjustments if necessary either in the long-range plan or in other economic levers. They may also issue directives amending the short-term plans, though this should not be the rule.

Socialist commodity-money relations in the conditions of socialist planning presuppose a large measure of independence of the enterprises not only in drawing up plans but also, and even more, in carrying them out, in solving the multitude of problems that crop up from day to day.

Under the new system of management the enterprises themselves will in large measure determine the quantity and type of output, all the micro-proportions, and decide questions pertaining to technology, quality and expenditures involved in the production of particular use values. Two circumstances necessitate this relative independence of enterprises as socialist producers, namely:

1. The fact that, as experience has shown, the central planning bodies cannot be expected to know all the concrete conditions of production and marketing at every given moment. For Czechoslovakia now produces roughly a million and a half different types of output.

2. That the decisive role in production planning by enterprises is played by the *material interests* of its workers. At the present stage of development of the productive forces, and owing to the present nature of labour processes, material incentives are unquestionably the chief stimulus. The gearing of incentive to quantitative indicators has hitherto been one of the main obstacles to greater efficiency.

The new system of management is aimed at creating an economic climate in which the workers, when taking relatively independent decisions concerning their production programme, will have the maximum material incentive to work for the fullest possible satisfaction of the requirements of society and make the most effective use of both labour and means of production. The enterprises will have this incentive if they are expected to cover their expenditure on reproduction from their own returns. Moreover, the dynamics of the real value of the goods sold as well as the measure to which they meet

the demand. This implies cost accounting in its true Leninist sense.

The new system aims at ensuring that the enterprises and their workers have a stake in the newly-created value of the output sold (income from sales after deductions for raw materials and depreciation). Besides the basic deduction for the state of a percentage of gross income or profit planned for a long period ahead, the enterprise will draw on its income to cover other commitments, such as repayment of credits, interest, fines, etc. It is proposed that part of the funds for capital expenditure on modernisation and partly on further development allocated under the five-year plan will take the form of credits to be repaid from the plant's income. The income of the enterprise will also be drawn upon to cover the so-called deductions from production funds, assessed as a percentage of the net value of both fixed and working capital. The balance, after the above deductions, remains at the disposal of the enterprise to be used to augment the technical development fund and the reserve fund, for minor investments in the enterprise, and primarily to replenish the *general fund for remuneration of labour*.

The latter fund will be used in keeping with the present regulations for basic wages and bonuses for fulfilment of quotas, as well as for additional bonuses and special premiums. The performance of the enterprise will have a direct bearing on the size of this fund inasmuch as it will depend on gross income. More effective use will thus be made not only of allocations for capital construction, but also of the fixed and turnover production funds, primarily because the above-mentioned deductions from the production funds will directly affect the size of the fund for remuneration.

The additional bonuses will be differentiated, depending on the performance of the workers. In addition to the ordinary extra bonuses, special premiums depending on the annual showing are envisaged.

Economy of labour will increase the reward accruing to each worker (and also the basic deduction from the gross income in favour of the state). There will obviously no longer be any need to determine by directives from the top the size of the wage fund and the number of workers employed in the enterprise, all the more since deductions from gross income for this purpose and the corresponding regulations will ensure an economically justified movement of wages.

Certain wage differentials are bound to emerge between enterprises in the same industry depending on their performance. We feel certain, however, that the material gain accruing to efficiently operated enterprises and the best workers, just as the material loss incurred by bad management, will have a salutary effect on the economy. Extensive political work of course will have to be conducted among the working people to help everybody to understand the need for this wage policy. At the same time there should be due differentiation in the enterprises as regards the additional bonuses, since not all workers will make the same contribution to the overall showing.

The new system implies a freer movement of manpower between different branches of industry and different enterprises. Although substantial shifts in the distribution of the labour force will be planned long in advance, in individual cases the decision will rest with each worker, or with the management and the trade unions. It hardly needs saying that in socialist society where the object of economic endeavour is better conditions for the working people, an economically necessary switching of workers from one sector to another cannot be done at the expense of the workers. Unemployment is ruled out both theoretically and practically. In the event of a worker being released from one or another enterprise the organs of people's power (National Committees) in co-operation with the enterprise will provide him at once with other employment. Moreover, the socialist labour code now being drawn up stipulates that necessary changes from one job to another shall not be to the detriment of the worker's standard of living, and he shall be fully provided for in the interval between jobs.

To provide the enterprise with incentive to meet consumer demand to the fullest possible extent, its income from sales—the decisive factor determining gross income and consequently the remuneration of the workers—should be a precise measure of the degree to which the market demand is met. Hence the new system provides for radical change in supplier-consumer relationships. In concluding agreements between supplier and consumer plants not only will the role of state plan indices be restricted or reduced to nil, the consumer will have a much bigger say. In other words, the consumer plant will by and large be in a position to choose its supplier and to go over to different materials, change technological

processes and even to amend the production programme if what the supplier plant offers is not to its advantage. In each case economic effectiveness will be the criterion. At the same time the administrative and legal regulations now being elaborated will rule out the possibility of a consumer plant being forced to accept products it does not want. Lastly, the principal consumer plants will be represented in all joint bodies empowered to decide the basic questions connected with the development of a given branch of industry, including special remuneration of top executives. This, too, will heighten consumer control over production. In these circumstances material incentives connected with gross income or profit of enterprises will undoubtedly help to gear production programmes to the market demand.

We have already mentioned the fact that the proceeds from sales should correspond to the actual created and realised value. In short, prices should harmonise with the socially necessary expenses of production. The new system underscores the role of prices, which should help to channel production along lines expedient for the whole of society. In this connection a particularly important part will be played by the wholesale price reform now being prepared, which should make for a relatively integrated price structure based on the socialist prices of production. All changes in wholesale prices are to be effected according to a comprehensive plan.

Fixing of prices, however, should be flexible. Prices for the new and modernised goods, and also for goods in great demand, should be fixed, temporarily, higher than price of production, and, conversely, prices of obsolete goods or those for which there is little demand, should be below the price of production.

It goes without saying that in Czechoslovakia with its vast nomenclature of output flexible prices cannot be fixed by one central body. On the other hand, arbitrary price formation cannot be countenanced. Therefore the new system provides for three categories of prices: fixed prices, limited prices and free prices.

Fixed prices will be set by the central planning body for the most important items—the principal raw materials, fuel, electric power, the most important types of machines and industrial equipment, staple foods and manufactured consumer goods. For goods in the limited price category the

central body will set the maximum and minimum boundaries within which the supplier plant fixes the sale price by mutual agreement with buyers. The third group takes in articles of minor importance from the standpoint of economic progress and the standard of living; here the prices are to be set by agreement between the supplier plant and the consumer plant, or determined by supply and demand.

The state will unquestionably exert the decisive influence on the dynamics of prices through the centrally regulated fixed and limited prices, and also through general regulations and systematic control of prices and quality, without, however, affecting their role as an economic lever or restricting the necessary flexibility of price movement. In this way price policy combined with incentive will encourage enterprises to search for the most rational solutions.

Clearly, full utilisation of commodity-money relations, introduction of essential regulations and the employment of such levers as the gross and net income of enterprises, prices, credits and interest, deductions for the state from the income of enterprises, wages, bonuses, etc., will help to overcome by economic means the non-antagonistic contradictions which, objectively, still exist in the socialist economy, primarily the contradictions between different enterprises and also between the enterprises and the central bodies. Consequently, what is in question is the full implementation of the principles of harmony and unity of the interests of society, of the enterprises and of individual workers. This will accelerate the harmonious, effective, all-round economic progress of socialist society.

We have attempted to give some idea here of how the new system will operate. But it would be a mistake to regard it only from the economic angle. There is no doubt that it will have a big socio-political significance. The idea is to accelerate the advance of socialist society and to create conditions for giving full scope to the initiative of individual workers and working communities.

Sadly mistaken are those Western writers who assume that the new system is exclusively a matter of using material stimuli, of underscoring individual inclinations and requirements, of abandoning the basic principles of comradely team work in the interests of society as a whole. If we lay the emphasis on the need to make full use of incentives and of individual initiative and the initiative of working com-



munities, this does not mean that we deny the enormous role of emancipated initiative, of a conscious, socialist attitude and of the moral factors that have taken shape since the expropriation of private property and the abolition of the capitalist mode of production in our country. We are firmly convinced that if proper use is made of material stimuli, which in past years were employed inadequately and not altogether correctly, all the moral stimuli of socialism will also operate far more effectively.

Further, it would be a mistake to see in the new system an attempt at automatic regulation of economic processes in which man and the community play no appreciable role. On the contrary. The creative activity of men and communities is the main motive force which, given the proper objective preconditions, paves the way to economic advance and further social progress. Hence it should be stressed that the new system will provide new opportunities for a more vigorous and creative approach to the solution of economic problems. What is in question is the deepening of democracy in the economic sphere as a basic component part of the general development of socialist democracy.

The overwhelming majority of the people of Czechoslovakia repose great hopes in the new system. We are confident that we shall achieve a still faster rate of growth, ensuring the prospering of our economy and society generally and thereby making our contribution to world peace and socialism.

# ECONOMIC DEVELOPMENT IN CZECHOSLOVAKIA

## Area and Population

	1950	1960	1965
Area — 127,900 sq.km			
Average annual population (thousands)	12,389	13,654	14,159
Natural increase per 1,000 population	11.8	6.7	6.4

## Average Annual Growth Rates of National Income and Aggregate Output in Industry and Agriculture { % % }

	1951-1965	1951-1955	1956-1960	1961-1965	1966
National Income	5.7	8.1	7.0	2.0	7
Industrial Output	8.8	10.9	10.5	5.2	7.4
Agricultural Output	—	1.6	2.1	-0.5	10

## Output of Key Industrial Items

	Units	1950	1960	1966
Electric power	000 million kwh	9.3	24.5	36.5
Coal	million tons	34.0	61.1	70.9
Pig iron	thousand tons	1,951	4,696	6,269
Steel	"	3,122	6,768	9,126
Rolled stock	"	2,144	4,481	6,518
Machine tools	thousands	12.9	30.2	23.8
Tractors	"	10.5	32.5	28.2
Passenger cars	"	24.5	56.2	92.7
TV sets	"	—	263	228
Washing machines	"	3.2	218	230
Refrigerators	"	11.6	132	279
Sulphuric acid	thousand tons	252	553	982
Mineral fertilizer	"	95.5	287	517
Plastics and synthetic tars	"	—	83.6	145
Cement	"	1,998	5,051	6,130
Textiles	million sq.m	564	716	781
Sugar	thousand tons	701	881	984

**Industrial Growth Rates in 1961—1966** (percentage change from previous year)

1961	1962	1963	1964	1965	1966
9	6	-0.6	4	8	7.4

**Growth of Average Monthly Wage in State-operated Industry and Industrial Co-operatives**

	1955	1960	1965
Factory and office workers {1953 as 100}	109	121	131
Factory workers {1950 as 100}	143	159	172

**Output of Key Agricultural Products** (in 000 tons)

	1950	1960	1966
Grain and leguminous crops	4,835	5,876	6,106
Wheat	1,430	1,503	2,273
Barley	1,030	1,745	1,618
Sugar beet	6,297	8,368	7,402
Meat (slaughter weight)	648	802	978*
Milk	3,642	4,093	4,188*
Eggs, million pcs	1,607	2,267	3,007*

\* 1965 figures.

**Education and Public Health**

	1950	1960	1965
per 10,000 population:			
university students	36.3	68.4	10.2
doctors	10.1	17.6	20.5
hospital beds	62	76	80

**Yields and Productivity**

	1950	1960	1966
Wheat yield, centners per hectare	18.9	23.1	25.5
Output per 100 hectares of farmland, in centners:			
meat	88.4	110	137
milk	497	562	589

\* 1965 figures.

**Growth of Labour Productivity in Industry (1950 as 100)**

1955 — 150

1960 — 211

1965 — 254

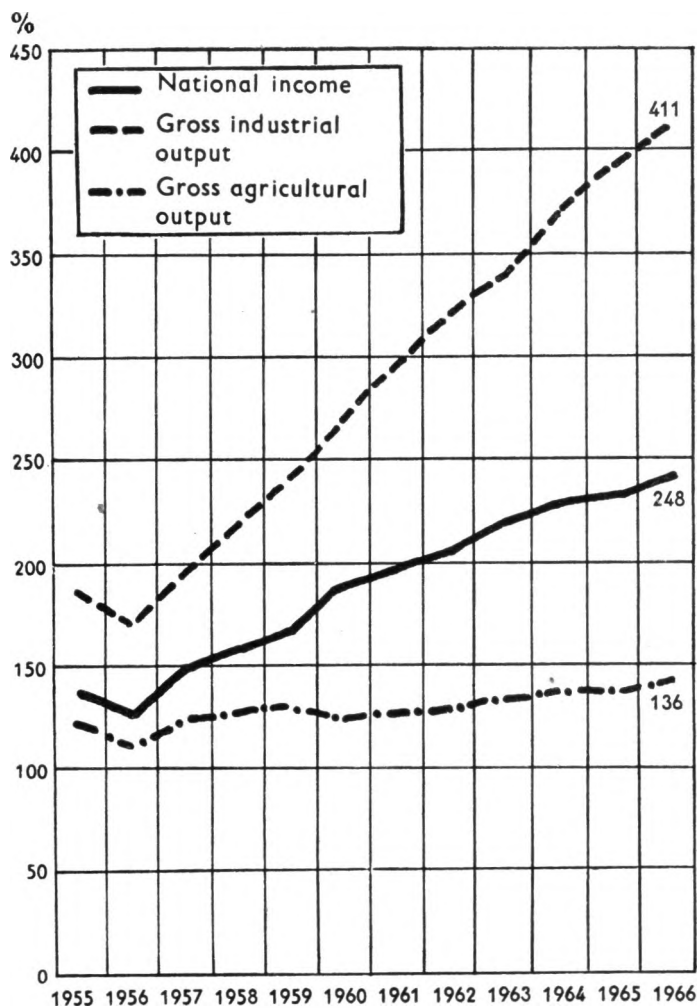
**Growth Rates of Aggregate Agricultural Output in 1960—1966**

(Percentage change from previous year)

1960	1962	1963	1964	1965	1966
6.2	-7.5	7.2	2.5	-4.1	10

# **The dynamics of the national income, gross industrial and agricultural output in Czechoslovakia**

[in comparable prices; 1950 as 100]



## THE ECONOMY OF CZECHOSLOVAKIA IN 1966—1970

Reconstruction of the economy and introduction of an improved system of planned management to carry up the growth rate of the national income and thereby meet the growing requirements was defined as the main trend in Czechoslovakia's economic development in 1966—1970 by the Thirteenth Congress of the CPC (1966).

By 1970 individual consumption is expected to be 17—18 per cent greater and public consumption 19—20 per cent greater than in 1965. To secure this rise the national income has to increase 22 to 24 per cent. Given the same share of accumulation as in previous years, this growth will have to be secured by raising labour productivity in material production 22—23 per cent.

Industry is the backbone of Czechoslovakia's economy. Its higher efficiency will therefore have a decisive bearing on the country's economic development. Industrial output is to expand 18—30 per cent by 1970, with the output of engineering expanding at a particularly high rate—by 43 per cent in five years. Stress is laid on improving the quality of products and on the achievements of the scientific and technological revolution, which will be taken into account when expanding production and installing new plant.

The chemical industry, and especially the petrochemical trend, is to be considerably expanded by virtue of Soviet oil deliveries via the Druzhba pipeline, which by 1970 will supply an annual 10 million tons.

Agricultural output is to be increased, above all by intensifying farming. It is expected that this will yield a 15 per cent increase by the end of the five-year period, with marketable output rising 19 per cent against 1965.

The standard of living will be pushed up by the overall development of production, of its structure, and the better quality of commodities. Since the living standard depends not only on direct distribution of material goods, but also on general conditions of life, it is planned to improve the service industries, boost the public consumption fund, etc. Preparations are under way to go over to a 42-hour week for all wage-earners, with people in arduous jobs working 20 hours.

# The New Economic System in the GDR - Its Essence and Problems

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WOLFGANG BERGER

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Consistent adherence to the general line of the world Communist movement as set forth at the Moscow meetings of 1957 and 1960 is the guiding principle of the Socialist Unity Party of Germany. And one of the tasks posed by this line is economic competition with imperialism, with a view eventually to defeating it in the most important sphere of social endeavour—the sphere of material production.

Until steps were taken to ensure the security of our frontiers at Berlin, the GDR was greatly handicapped in this competition since the West German imperialists took advantage of the open border to undermine our economy. With the security measures of August 1961, however, a turning point was reached in this struggle. The enemy was deprived of most of the opportunities it previously had to damage our efforts. The normalisation and stabilisation of the economy of the GDR now became a top priority.

## RELEASE THE SOCIAL DRIVING FORCES OF SOCIALIST ECONOMY

The Central Committee of our Party set about creating the conditions needed for the republic to bring its full weight to bear in the economic competition between socialism and capitalism. A critical examination was made of the previous planning and management practices, since during the period of the open frontier the economic laws of socialism had often been

violated both due to the manipulations of the West German monopolies and through our own fault.

The conclusion drawn from this re-examination was that the system of planning and management did not ensure full harmony between the requirements of society as a whole and the interests of the publicly-owned enterprises, the separate enterprises and the individual workers. Thus, one of the main driving forces of our economic and social development was not fully utilised. The task was, then, to create a system of planning and management that would make for harmony of interests which is an intrinsic requirement of socialist society.

The Party had two considerations in mind: first, the need under all circumstances to eschew fruitless discussion of past mistakes, since such mulling over of bygones was fraught with the danger of all previous experience being discarded as useless; and, second, the need to develop new lines of thinking as a comprehensive whole, with a view to creating an integrated system of planning and management.

The previous planning and management methods originated at a time when socialist production relations were still inadequately developed and the level of productive forces was relatively low. They were the inevitable corollary of a situation when raw materials were in short supply and had to be distributed among the key enterprises mostly by administrative methods, when the balance of class forces was not as favourable as it is today, and when the average level of managerial training and experience still left much to be desired. To a greater or lesser extent this was the case in all the European People's Democracies.

The old methods used in the GDR could also be traced to the glaring disproportions in the economy inherited from German imperialism or caused by the war and the division of Germany.

It can be said, then, that with the maturing of the new, socialist mode of production it is objectively necessary for every socialist country to introduce radical changes in planning and management in order to bring them into agreement with the changed conditions.

*Hence the importance of the decision taken in the GDR not merely to refurbish the old system of planning and management, to introduce some isolated innovations or to correct one or another mistake, but to build a new, integrated system. As a result it became possible to concentrate the forces of the Party and state bodies on implementing the new system compre-*



*hensively, from top to bottom, and to give thousands of executives the professional and ideological training needed to carry out the new tasks.*

In self-critically examining our previous practices we proceeded from what Lenin said about the importance of the proper use of material incentives for the victory of the new system in the period of transition from capitalism to communism. The form in which this basic idea should be realised in a developed socialist society such as ours is implicit in the formula: "What is good for society should be good for the enterprises, for their personnel, and for each worker." We still have instances of this precept being underestimated, of a lack of appreciation of the nature of the publicly-owned enterprises and their amalgamations as working units of a special type. The heads and personnel of these units have their specific interests, the harmony of which with the interests of society should be constantly ensured.

Formerly this was not always done. Suffice it to recall that although the interests of society demanded that each enterprise should have its optimal plan, the interests of the managerial and executive personnel at the point of production prompted them to keep their programmes down so as to ensure bonuses for over-fulfilment of plan. Close study of the reasons for this attitude revealed economic levers which have helped to bring about a substantial measure of harmony between the interests of the amalgamations, enterprises and the workers both collectively and individually, on the one hand, and the interests of the economy as a whole, on the other.

This conformity can be ensured only if the results of productive labour are accurately measured. In other words, *the motive forces of the socialist system fully assert themselves only if due account is taken of the law of value.* We hold that value is an economic law of socialism operating on the basis of, and giving expression to, the socialist relations of production, and we regret the Stalin view that the law of value is, in effect, a survival of capitalism and hence essentially alien to socialism. The law of value exists and operates in a reciprocal relation to other economic laws of socialism. But it is no longer the elemental regulator of production it is under capitalism. It provides a precise yardstick for measuring the expenditure of social labour and, together with incentives, tends to lower cost of production.

Practical measures were devised to draw the maximum be-

nefit from the operation of the law of value. *Cost accounting is now consistently employed to regulate and plan the process of reproduction* and, as a prerequisite, prices of all manufactured goods were related to the actual socially necessary expenditure of labour. (Retail prices for consumer goods were not affected).

For the same purpose fixed capital has been re-evaluated. Formerly it was often under-valued, and the depreciation rate was too low. This could not but encourage wastefulness. For instance, funds were far too often sunk in machinery and equipment which was used only a few hours in the course of the working day.

The wholesale price reform and revaluation of fixed capital provide the conditions for accurately ascertaining the actual cost of production.

Such economic categories associated with the law of value as price, cost of production, profit, wages, credit, etc., can be used as economic levers owing to their bearing on the material interests of the enterprises and of the workers. Decisive here is profit. When the system of economic levers is properly used, high profit is an indication of excellent performance in the interests of society.

It was essential also to devise new levers. The tax on production funds, which in effect amounts to interest on the funds supplied by society to an enterprise, is a case in point. The absence of this lever involved the economy in substantial losses in the past. Now, with production funds subject to taxation, it is in the interests of the enterprise to acquire only the plant and equipment needed to fulfil the plan with an eye to net income. The underlying premise is that the tax will prompt the amalgamations and enterprises to be guided in planning their production and investment programmes by strictly economic considerations so as to increase their profit and bonus funds.

In all this we are acting in accord with the views of the late Academician V. S. Nemchinov, the Soviet economist, whose works are highly esteemed in the GDR. "The basic and most important thing is to combine the mechanism of planning with cost accounting and the system of public funds at the enterprise," he wrote in one of his last works. The "cost accounting system of planning" which he advocated is now being realised in the GDR.

The new system calls for the use of the latest electronic

computer equipment. This is an area in which we are taking only the initial steps. However, the theoretical and organisational groundwork is being laid to make the most effective use of this equipment.

It should be said that the amalgamated enterprises are an essential link in the new system. These amalgamations of key public enterprises operating on a self-supporting basis are the directing bodies in their respective branches of industry. This horizontal structure of publicly-owned industry (in some cases vertical integration is also practised) guarantees a unified economic and technological policy.

The GDR has about 80 of these amalgamations consisting of some 1,500 enterprises, mostly big ones. This relatively small number of amalgamations and enterprises accounts for roughly two-thirds of the total industrial output. The high degree of concentration, naturally, has made it easier to introduce the new system. With considerable experience already accumulated in using the system in centralised industry, it is being extended also to local industries.

#### THE TECHNOLOGICAL REVOLUTION AND THE NEW ECONOMIC SYSTEM

In working out the new economic system of planning and management, the fact that science is increasingly becoming a direct productive force in its own right, and the growing impact of the technological revolution, had to be borne in mind.

The Central Committee of our Party long ago pointed out that one of our main *political* tasks was to overtake Western Germany for the rate of growth as well as the absolute level of labour productivity. We in the GDR have been working towards this end in direct contest and confrontation with the West German concerns. The task, however, has proved more difficult than many comrades assumed at the outset.

The big effort made by the leading West German concerns to capitalise on the technological revolution obviously has not made the task easier. We cannot close our eyes to the fact that these monopolies were able to restore their old positions and gain economic preponderance in Western Europe largely because they gauged the implications of the technological revolution and acted accordingly.

Britain is an instructive example in this connection. Top Labour politicians have pointed out that Britain has not kept

in step with the technological revolution. The present economic difficulties of that country are common knowledge. And by no means the least of the reasons is that technological progress in a number of key areas has been far slower in Britain than in the USA, West Germany, Japan, France and Italy.

Although no direct parallel can be drawn in the case of the socialist countries, underestimation of the significance of the technological revolution or tardiness in carrying it out obviously does not facilitate realisation of the general line of the world Communist movement.

Not only our political tasks but also *economic* factors underscore for us in the GDR the necessity of measuring up to the objective dictates of the technological revolution. Owing to the structure of its industry, the GDR is in vital need of extensive international trade to provide an outlet for the export of machines above all. It already is a big supplier of machinery to the fraternal socialist countries and also to capitalist states.

Since the imports of the socialist countries, understandably, tend to consist more and more of the very latest in machinery, our engineering works have had to keep up with the most up-to-date products offered on the world market. Thus from the foreign trade angle, too, it became clear that our output, both means of production and consumer goods, had to measure up to world standards. Much effort was needed to achieve the necessary level as regards quality, durability, technical performance and supply of spare parts. This was not easy, if only because prior to August 1961 the imperialists had been able to lure away many of our technicians.

The point then, was what conclusions should we draw from the technological revolution in working out the new economic system. Merely to do away with the old administrative practices was not enough. *The important thing was to incorporate into the new economic system in the most rational way the entire sphere of research and designing.*

*Here, too, economic levers had to be devised which would ensure harmony between the interest of society and the interests of researchers, designers, planners, engineers and technologists, levers which would give the maximum impulse to technological progress.*

Moreover, and this was most important, planning had to be put on a qualitatively new basis. Planning in two phases was made the guiding principle in drawing up long-range plans, the first phase outlining the development of the productive

forces, with due regard to the main directions of scientific and technological progress, over a period of 15—20 years, and the second phase consisting of detailed planning for five to seven years ahead.

Hence planners—and these include also the heads of the amalgamations and of the enterprises and the personnel of their planning departments—are expected to be guided not so much by the level achieved to date but by the top technological level likely to exist on a world scale at the end of the period for which the plan is drawn up. A big role is played by long-range planning to lay the groundwork for production programmes in the leading branches.

The first research plan in the field of natural science and economics has been drawn up for 1965. Since this is an entirely new area much of the groundwork still remains to be done.

The general managers of the amalgamations have at their disposal considerable funds for financing research and development programmes, the application of the results of this research and the introduction of the latest technological processes. Substantial credits have also been made available for these purposes.

*In brief, the new system is designed to ensure technological progress and complete integration of investigations in science, technology, in research, development and designing.*

#### THE SCIENCE OF SOCIALIST MANAGEMENT IS AN IMPORTANT COMPONENT OF THE NEW ECONOMIC SCHEME

The technological revolution has greatly accelerated the pulse of economic life, and this makes higher or completely new demands on managers and executives. Hence the new system includes scientific management as one of its components.

*Primarily this is a question of scientific management of socialist enterprises and amalgamations of enterprises in the conditions of the technological revolution and the growing interlocking of enterprises and amalgamations in the different branches of industry, of management in which full use is made of the advantages of socialism.*

At the same time it is a business science of great political and ideological significance. It is designed to help the general managers of amalgamations and directors of enterprises as well

as other executives to rid themselves of obsolete methods of management and to organise their work so as to make proper use of the economic laws of socialism and the new economic system.

We are now only beginning to develop this science, although the underlying ideas were outlined at the fifth plenary meeting of our Central Committee. It presupposes centralism in deciding basic questions (especially those concerning long-range planning and co-ordination of the economy) and the responsibility of the amalgamations and enterprises for the solution of problems pertaining to the separate branches and spheres. In view of this, considerably greater authority has been delegated to the general managers and directors. Executives now have the opportunity to make a deeper study of problems, to concentrate on the cardinal issues in their respective spheres, and to make use of the latest managerial methods (data analysis, etc.). Much importance is attached to training executive personnel, especially from among the youth, and also to exchanges of experience.

The science of socialist management helps to strengthen the objective basis for deepening socialist democracy in the economic sphere, stimulating creative initiative, heightening people's sense of responsibility and doing away with petty tutelage from above.

*The transition to the new system necessitates considerable effort to cultivate a new way of thinking and to give economic cadres the training necessary to ensure success.*

Lastly, it should be mentioned that the technological revolution could not but prompt a re-examination and reorganisation of our educational system; and the new system, though it has no direct bearing on the educational system as a whole, tends to make for further advance in this area.

To sum up: although the full magnitude of the tasks involved in creating the new economic scheme became clear only in the course of the work, *the object from the very beginning was to advance planning and management to a qualitatively new plane, to make them more effective than ever for promoting the economy of an industrially developed socialist country engaged in solving problems of the technological revolution. It is a question of applying the principles of the political economy of socialism, which has been developed further and freed from dogmatism.*

It can be assumed that sooner or later similar problems will arise in all the industrial socialist countries. Hence the impor-

tance of theoretical discussions and exchanges of views on these questions between representatives of the fraternal socialist countries.

## THE FIRST RESULTS OF THE NEW ECONOMIC SYSTEM

The introduction of the new system began in mid-1963, and by 1964 all the amalgamations had begun to work according to the new principles evolved at that time. Cost accounting asserted itself and profit became the touchstone of performance.

The progress made in the past 18 months shows that we are going in the right direction. The 1963 output plan was fulfilled, the increase over the previous year amounting to DM 3,500 million. Profit grew by 37 per cent, and production costs were reduced as planned. Satisfactory results were also achieved in improving quality. In 1964 the showing was as good or even better. Profits rose, and production costs were lowered more than planned. More than two-thirds of the enterprises reached their profit target. This success contributed in the broad sense to raising the standard of living (by providing better and more durable consumer goods, for instance). Moreover, bigger profits meant bigger bonuses.

Here is one of many examples: industrial consumption of electric power in the second and third quarters of 1964 was 6 per cent less than in the same period of 1963—partly due to the fact that the new fuel and electricity rates, related to actual cost, prompted executives to use power economically and rationally.

In 1964 many industrial amalgamations considerably increased (in some cases by more than 50 per cent) the output of top quality goods.

In agriculture the new economic scheme is less widespread than in industry, but the purposeful application of effective economic levers, especially the substantial bonuses for selling to the state produce obtained as a result of increase in output, have had a good effect, and the upward trend has been sustained by placing greater responsibility on the boards of the agricultural co-operatives. Never before has agriculture been so close on the heels of industry as regards growth of production and efficiency. The members of co-operatives have put their shoulder to the wheel and are proving their ability to conduct intensive large-scale farming.

The results of the new thinking on the part of thousands of executives are perhaps as important as the economic results. The new system calls for managers of a higher calibre. *It is advancing to the fore enterprising, energetic executives aware of their responsibility and ready to take the initiative once matters have been thoroughly thought out.* It encourages executives to use their powers to organise and inspire the workers to make an exemplary showing.

A variety of motives prompts managers to strive for the best results. Many respond to the dictates of their communist conscience; their class consciousness impels them to advance production in the interests of socialism, of the people's well-being. Executives of this type are now, thanks to the policy of incentives, in a better position to carry with them the non-Party people as well.

There are also managers who attach importance to the size of their own incomes, and this is all to the good. *The decisive thing is that correct combination of personal and public interests impels them to work for the good of society.* This is bound to influence their political consciousness, especially when the Party organisations carry on effective political and ideological work.

The process of reappraisal has been by no means smooth. Many executives wholeheartedly welcomed the new economic system and began working in the new way. Others adopted a passive, wait-and-see or even negative attitude. They shied away from the new and were reluctant to reassess their attitudes. Some of them clearly will not be able to live up to the new requirements and will have to be given other work.

It is gratifying to see energetic, capable young people coming to the fore. Graduates of the technical and economic colleges, too young to have been bogged down in the old administrative practices, have shown themselves capable of coping with challenging problems. They believe in team-work, for they have seen in the course of their training that complex technological and economic tasks can be solved only through co-operation among specialists in different fields. There has been a notable rejuvenation of executive personnel since the Sixth Congress of the Party and especially since the introduction of the new economic scheme, and many of the newcomers have already reached a standard of performance equal to that of the seasoned executives. This is a guarantee of still better results in the future.



## IMMEDIATE TASKS

With the new ousting the old on such a grand scale one can hardly expect the new system to assert itself everywhere at once.

For one thing, thousands of executives are readjusting themselves to the new methods, and the thinking and action of the people generally also needs readjusting. Complete transition is clearly a matter of several years, and so far we are still mid-way. While some important measures have been carried out, others, such as the reform of wholesale prices, will have to be implemented in a series of stages. There are, moreover, important measures which still have to be worked out and tested, such as long-term norms of utilisation of profits and price control independent of the enterprises and the amalgamations.

The problems involved are highly interesting. For instance, in order to get rid of the obsolete bureaucratic practices in planning, economic levers enabling us to plan and guide the process of reproduction by non-bureaucratic methods had to be devised.

Our Party has always stressed that planning on the scale of the entire economy is one of the great achievements of the socialist revolution which should not be relinquished. Now that planning is being properly related to economic levers, the enterprises and amalgamations will be able to do much of the planning independently. They have, in addition to the right to do their own planning, also the economic means with which to do it. Besides deepening socialist democracy in the economic sphere, the new system gives a powerful impetus to socialist democracy generally. Moreover, the central planning bodies are relieved of much routine work hitherto done by inefficient administrative methods.

In the future the central planning bodies will be able to concentrate on their main task—elaboration of a balanced long-range plan conforming to the objective needs of society and based on the decisions of the Party and the Government, a plan which will accelerate technological progress and set the enterprises and amalgamations realistic tasks in keeping with their interests and with the interests of society.

## THE ROLE OF THE PARTY

*Our Central Committee and its Political Bureau guided the elaboration of the new economic scheme right from the beginning, for the task was too big and important to be shouldered by any single ministry or other state body. The basic line was laid down under the guidance of the Party, realisation of its various aspects was carefully prepared and the results were thoroughly analysed.*

The Party leadership enlisted young economists and practical workers in studying the basic theoretical problems involved. Every opportunity was provided for fruitful research and results were not slow in coming. Apart from anything else, the entrusting of this important work to the young specialists has added to the prestige of the Party leadership.

A big role was played also by those directly responsible for giving effect to the new scheme. For instance, large-scale experiments were conducted, chiefly in those amalgamations where the general managers were aware of the need to strike out along new lines and who possessed the necessary competence and experience.

At the same time the leadership urged all the Party organisations in industry, agriculture and building to improve their work. The propagation of Marxist-Leninist ideology was linked with the dissemination of technical knowledge and the skills demanded by the new system. Abstract generalities were eschewed.

Guidance of Party work along production lines bore its fruit. Bureaus were established in the regional committees for industry, building and agriculture, and representatives of the Central Committee were appointed to the amalgamations of public enterprises.

The Party had to clarify a number of new ideological questions that came to the fore in connection with the new system. As soon as the aims of our new measures became known, the West German imperialists seized on them to claim that the Communists in the GDR were reverting to capitalist economics, that they were copying the capitalist experience, that socialist planning was in a state of crisis and that the new measures would not improve things since they did not allow for a free commodity-money economy and private ownership. They claimed that there were differences of opinion between the Party leadership and the younger economic executives, whom

they hoped to impel toward so-called liberalisation. This, of course, was wishful thinking.

*There is complete clarity in our Party on the essence of the new economic scheme. This system is not a shift to capitalist theory and practice; it is designed to develop and concretely apply the political economy of socialism in an industrial People's Democracy, where the state determines the main proportions in the national economy and is engaged in carrying out a technological revolution. For us the new system is a powerful weapon in the struggle against imperialism in the sphere of material production.*

## **ECONOMIC DEVELOPMENT IN THE GERMAN DEMOCRATIC REPUBLIC**

### **Area and Population**

	1950	1950	1965
Area — 108,300 sq.km			
Average annual population (thousands)	18,388	17 241	17,028
Natural increase per 1,000 population	4.6	3.4	3.1

### **Average Annual Growth Rates of National Income and Aggregate Output in Industry and Agriculture (%%)**

	1951-1965	1951-1955	1956-1960	1961-1965	1966
National Income	7.2	11.3	7.0	3.4	4.5
Industrial Output	9.5	13.8	9.2	6.0	6.5
Agricultural Output	—	7.0	2.6	1.3	2.9

### **Industrial Growth Rates in 1961—1966 (percentage change from previous year)**

1961	1962	1963	1964	1965	1966
6	6	4	6	6	6.5

### **Growth Rates of Aggregate Agricultural Output in 1960—1966 (percentage change from previous year)**

1960	1962	1963	1964	1965	1966
8.9	—1.4	8.6	4.6	7.4	2.9

## Output of Key Industrial Items

	Units	1950	1960	1966
Electric power	000 million kwh	19.5	40.3	56.8
Lignite	million tons	137	225	249
Pig iron	thousand tons	337	1,995	2,448
Steel	"	1,271	3,786	4,537
Rolled stock	"	781	2,613	3,048
Machine tools	thousands	24.2	41.9	54.3
Passenger cars	"	7.2	64.1	106.5
Radio sets	"	278	810	873
TV sets	"	—	417	562
Washing machines	"	0.8	133	314
Refrigerators	"	1.8	139	360
Sulphuric acid	thousand tons	300	730	978
Mineral fertiliser	million tons	1.5	2.1	2.6
Plastics and synthetic tars	thousand tons	—	115	248
Cement	million tons	1.4	5.0	6.4
Textiles	million sq.m	329	665	662
Sugar	thousand tons	605	680	605

## Output of Key Agricultural Product (in 000 tons)

	1950	1960	1965
Grain and leguminous crops	5,825	6,476	6,886
Wheat	1,214	1,456	1,802
Sugar beet	5 754	6,837	5,497
Meat (slaughter weight)	—	1,021	1,126
Milk	3,497	6,012	6,543
Eggs, million pcs	1,209	3,512	3,935

## Yields and Productivity

	1950	1960	1965
Wheat yield, centners per hectare	25.4	34.8	36.7
Output per 100 hectares of farmland, in centners:			
meat	—	159	177
milk	536	936	1,029

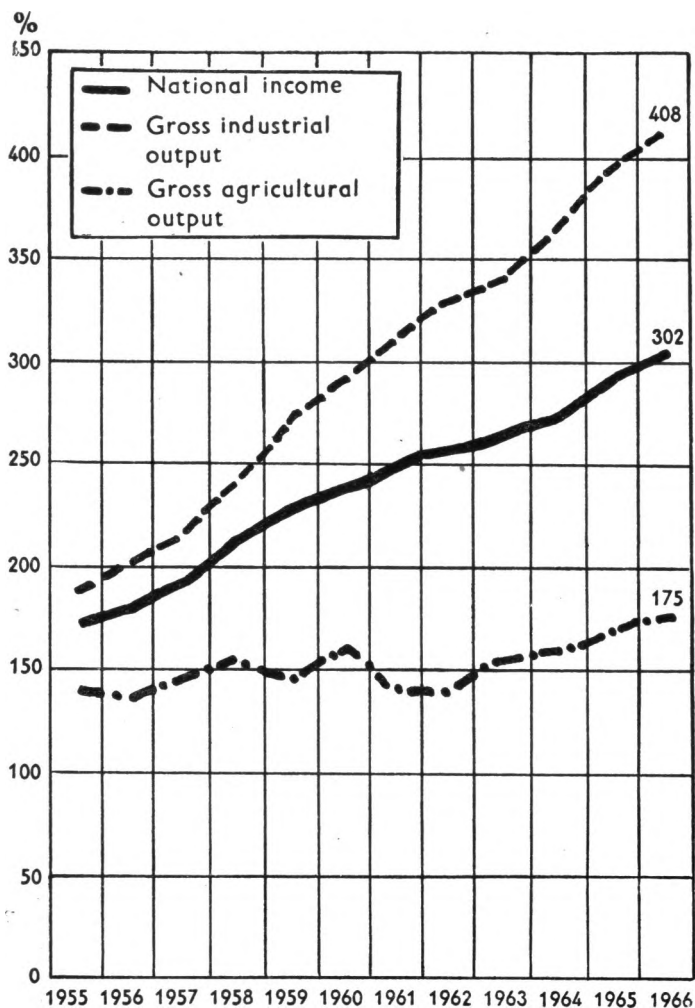
**Growth of Average Monthly Wage in State-operated Industry and Industrial Co-operatives (1950 as 100)**

	1955	1960	1965
Factory and office workers	146	180	201
Factory workers	147	184	206

**Education and Public Health**

	1950	1960	1965
per 10,000 population:			
university students	17.1	59.3	63.4
doctors (excl. dentists)	7.4	8.5	11.5
hospital beds	102	119	121

**The dynamics of the national income, gross industrial and agricultural output in the German Democratic Republic**  
 (in comparable prices; 1950 as 100)



## **THE ECONOMY OF THE GERMAN DEMOCRATIC REPUBLIC IN 1966—1970**

The main trends in the economic development of the GDR in 1966—70 were defined by the Seventh Congress of the Socialist Unity Party of Germany (1967) as considerable expansion of all economic branches and a further rise of the standard of living and cultural level of the people.

In the five years the national income is to rise 28—32 per cent against 1965, with the productivity of labour mounting 40—45 per cent in industry and 30—35 per cent in agriculture. This conditions priority use of investment funds for comprehensive socialist rationalisation and more effective use of available fixed assets. By 1970, investments are to increase 48—52 per cent over 1965, with building expanding by at least 40 per cent.

Industrial output is to go up 37—40 per cent in five years, with an accent on branches with the strongest bearing on the progress of the scientific and technological revolution and the improvement of overall efficiency.

Farm output will increase 13—15 per cent in five years.

Foreign trade is to be considerably expanded. Trade with the Soviet Union, for example, is to increase 45—50 per cent.

Fulfilment of economic targets according to plan will promote continued improvement of the standard of living. Real incomes of the population will be 19—21 per cent greater than in 1965.

# Reform of the Economic Mechanism in Hungary

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REZSO NYERS

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The Central Committee of our Party recently elaborated an extensive programme of economic reform scheduled to begin in January 1968. We view the reform as a social process which will be consummated only in three or four years. The eighteen months or so preceding the launching of the reform will be a period of preparation and gradual approach, and in the next year or two the reform measures will get under way.

The general political aim of the reform is to strengthen and further develop the socialist relations of production and to stimulate more conscious and productive labour and greater participation in public life. The economic aim is to ensure more effective use of the publicly-owned means of production and to ensure a more expedient use of social labour. The political and economic motives of the reform, as formulated by the Central Committee, are as follows:

- to strengthen our socialist system and accelerate the advance to our goal—completion of an all-round socialist society;

- to promote development of socialist relations of ownership and of the productive forces, to enhance the independence of the enterprises and to make them more efficient;

- to ensure better planning and to improve management;

- to apply more effectively the socialist principle of remuneration of labour and greater incentives to all working people in order to ensure more conscious, high-quality labour;

- to raise the efficiency of social labour as a whole as well as of each economic unit.



When drafting the new measures we proceeded from both the international viewpoint, paying due regard to the trends of international socialist development, and our own national viewpoint, taking into consideration the specific conditions and features of our country. In the process of this work the compatibility, from the standpoint of Marxism, of these two approaches was reaffirmed; moreover, they led us to identical conclusions. Studying the economic experience of the other socialist countries, we paid special attention to two trends which, in our opinion, can be generalised. One is extensive development of commodity-money relations with the planned socialist economy; the other is a growing striving of the working people to exert their influence on management not only from a class standpoint, but also from a local or regional standpoint, to see a greater decentralisation of management and, hence, more democratic management. Both trends wholly correspond to the lines of our national development.

After the two decades of post-war progress our republic can be listed among the countries on an average level of economic development. The present per capita national income is roughly 550 dollars a year. This synthetic indicator places our country in a middle position among the European countries in general and among the 14 socialist states in particular.

The growth rates reached and the entire situation enable us to say, without fear of exaggeration, that the economic base of the socialist society in our country is a solid one. The feature of our economic life as a whole is its stability. Yet we cannot say that the socialised means of production have been used efficiently enough and that labour on the scale of the society has been organised as rationally as possible. We cannot claim that we have achieved the optimal level of economic efficiency possible under the existing conditions. A critical analysis of our economic situation pinpointed the following outstanding negative aspects and problems:

—Although economic growth was maintained in recent years too, the pace was much slower than in the preceding period and the national economy failed to achieve the planned growth rate. Whereas in 1958—60 growth of national income averaged 7.8 per cent a year, during the second five-year period (1960-65), for which a lower target of 6.5 per cent a year was set, we managed only a growth of 4.6 per cent. For the immediate years we shall have to be satisfied with this rate of growth, but in the longer term it certainly cannot satisfy us, and we will

have to find ways and means of ensuring a more rapid growth of national income.

—Our system of management is to this day affected by the absence of a due rhythm in production and in the turnover of products. It often happens that at the beginning of the year or even of a quarter many enterprises experience a shortage of materials, do not have enough orders and operate below capacity; then, towards the end of the plan period we have rush work, overtime and crammed warehouses. In agriculture, too, the present system of material and technical supply is unable to sustain more efficient production. And this, understandably, affects the growth of national income.

—Our former, and the present, system of planning, fixing prices and financing creates too many obstacles for the development of market relations between producer, buyer and consumer. As a result, the planning and economic bodies perceive the influence of the market indirectly, belatedly and in a distorted form. On the other hand, the enterprises do not take due account of the demands of the market. The excessively wide sphere of operation of state-fixed prices and the commitment to accept the planned products often make the manufacture of even unwanted articles appear profitable. The system of planning, prices and financing so tightly “guards” production and the enterprises against the influence of the market that this in the long run makes managers complacent, resigned to marking time and indifferent to technological progress. The system is uneconomic also because it leads to excessive stockpiling.

—Although we were able with the aid of national planning to maintain a general balance between production and effective demand, the variety of products and the structure of demand were never in harmony. A certain overproduction existed alongside underproduction of goods for which there was a demand. This problem became acute when the standard of living reached its present level, the demands of the home market as regards choice and quality greatly increased and our industry was confronted on the world market with growing competition and the demand for better quality and lower prices. Thus the danger of shortage of goods and imbalance on the market became chronic. The system of planning and financing prevented a comprehensive and satisfactory solution of these problems and that is why the government often took measures

mostly aimed at distributing the values created by administrative means. This, however, did little to overcome the real causes of the disproportions and ensure harmony between production and demand.

—The purchase prices for agricultural products were too low, which has a bad effect (and to some extent still has) on agriculture. The prices made it impossible for the co-operative farmers to cover expenditure, to make reasonable accumulations and to receive an adequate income; yet it is in the interest of the national economy that the agricultural co-operatives should receive adequate incomes. One reason for this is that we did not know well enough the actual average costs of production in agriculture; even after the cooperatives began to develop on a wide scale we adhered to the view that agriculture's contribution to social production should be made by maintaining purchasing prices at a low level. True, we have a special system of rendering financial aid to the co-operatives by means of which we are gradually raising the incomes of the peasants, but this system is not effective enough in stimulating production.

—In the last decade the standard of living has risen steadily. Incomes of all the main sections of society have grown. This is an important economic and political achievement. Yet it would be incorrect and impossible to continue this process in its present form. Under our present system of remuneration and distribution of incomes the latter have grown more as a result of payments from public funds rather than as remuneration for labour. Between 1960 and 1965 income in the form of payment for labour increased by 20.3 per cent, while the part received in the form of payments from public funds increased by 36.9 per cent. This ratio is highly disputable. What is excessive is not the concern for people displayed by the state which is perfectly natural in a socialist country, but various subsidies. This runs counter to the socialist principle according to which each receives his share of the social product according to his work. What would be untenable in the future is the 10 per cent average difference in income of industrial workers and co-operative farmers (to the detriment of the latter), because right now this is resulting in a sharp increase in the number of industrial workers at the expense of the best of the labour force in agriculture. Should this system be left unchanged we would have to relinquish those forms of remuneration and income distribution which tend to stimulate a more rapid

growth of productivity (and of incomes) for those engaged both directly and indirectly in production.

The critical analysis led to an investigation of the deeper reasons for our economic problems and errors—not the fortuitous but those of a chronic character. We saw that, although many of them could be traced to personal shortcomings of individuals, many more are the result of the bad effects of certain economic methods and institutions. We concluded that the roots lie not only in individuals but in methods and institutions which, by no means inherent in a socialist planned economy, were engendered by a particular phase of development and are, therefore, subject to the laws of socio-economic development.

A scientific appraisal of the present state of our society and the requirements of its further development gives us, in my view, grounds to consider the reform an historical necessity from the standpoint of the development of socialism. It is not a question of a "brains trust" inventing a theoretical system and our Central Committee accepting it. Science and abstract thinking played their part in preparing the reform, but a bigger role was played by practice. As Marxists we know that scientists and specialists should above all be always able to apprehend in good time the course of development and the aspirations of the masses, to express these aspirations realistically and to indicate the path to be followed. We believe this was the case with the reform, for the initiative of the Party was combined with the prevision of scientists. The reform is a product of our social development, the result of the combined efforts of economists, industrial specialists, Party functionaries and economic executives. Thus it is not a question of experimenting on the scale of society, but of our desire to apprehend the historical necessity and of our determination to realise it consciously and in a planned way.

What is the essence of the reform?

*Briefly it is organically to tie up planned centralised guidance of the national economy with the active role of the market.* The aim is to influence production, distribution and consumption by new means, by new, more effective methods. In this way we want to achieve a more rapid and smoother development of our economy, faster growth of production, higher efficiency and better quality, with a simultaneous increase in consumption thanks to a greater harmony between quality of goods and consumer demand. Needed for this are the following requirements:

—decisions on each economic problem should be taken at the level best informed and directly concerned. The enterprises should have greater opportunities for decision-making, while decisions emanating from the centre affecting the country as a whole should be fewer; and these, when taken, should be broader in character, better prepared and carry more weight;

—enterprises should act more energetically and take reasonable risks in seeking opportunities to satisfy market demand and to make bigger profit;

—to ensure, on the basis of market relations between producer and consumer, greater inter-action of production and demand, to bring the range of products into harmony with demand;

—to further initiative by the working people, to create the most favourable conditions for them to participate more actively in management and in supervising economic processes; to promote socialist democracy.

A significant feature of the reform is that it will change the methods of management not only in industry, but also in almost all other areas of economic life. Concretely speaking, its basic principles are as follows:

1. Centralised economic guidance should be based on five-year plans, which can be drafted as parts of long-term plans. The five-year plans will continue to express the economic policy of our socialist state; they will determine the chief aims of economic development and the main proportions of economic growth. That is why, when drafting them, attention should be concentrated on fundamental economic matters which, of course, must be decided by the central bodies. Annual plans should play a lesser role; they should include mainly operative measures of the government and influence those economic processes which we want to regulate through the market mechanism. Economic levers (taxes, prices, credits, income, etc.) should become an organic part of national planning.

2. To ensure effective operation of enterprises and enhance their responsibility, the current system under which the ministries hand down the national plan to the enterprises in the form of indices will be abolished. Experience shows that this way of doing things makes it impossible properly to gear the enterprises to serve the interests of the national economy as a whole. Planning at enterprise level will henceforth be based, not on the targets set by the central bodies, but on state regulation of finances and prices and on orders placed by

government bodies and other socialist enterprises. The enterprises will prepare their own plans and take decisions with a view to meeting the demand of the market and operating more efficiently and more profitably.

3. In the turnover of means of production and consumer goods administrative methods of distribution, which are still too widely applied, will, with few exceptions, be replaced by market relations. We believe that in doing business with one another producer enterprises and buyer enterprises should be completely equal and proceed from their actual economic position. The various supply agencies should be turned into trading enterprises and cease to be mere distributors.

4. The reform should help bring about a more correct distribution and more effective utilisation of investments. Investment policy will continue to be centrally planned, but we must do away with its bureaucratic features. Here too, an important role will be played by the decisions and interests of the enterprises concerned. As to large-scale investments, decision-making remains with the government and its agencies. These include investments for new undertakings and considerable expansion or complete reconstruction of existing enterprises, as well as big investments in the non-production sphere. However, along with large-scale investments by the state, a much bigger role will be played by enterprise investment financed through bank credits to be repaid from profits. Furthermore, the enterprises must be provided with greater opportunities for making investments from their own fund. In future the matter of credits for capital construction and the utilisation of their own funds will be decided by the enterprises without the sanction of the centre. That is why the state budget, bank credit and the funds of the enterprise itself will be equally important from the viewpoint of financing investment.

5. A special place in the reform is occupied by the plan for forming a more rational and flexible system of prices which will come into force on January 1, 1968. We want prices and a system of prices which will correctly orientate and provide an economic incentive to both producer and consumer. Prices will be formed under the influence of the following three factors: cost of production, market demand, and state recommendations. It will be necessary to continue evening up the prices of agricultural and industrial products to enable the state farms and co-operatives to build up their basic and circulating funds mainly from their own accumulations. The price

reform should make it possible to establish an organic interconnection between home and external trade prices. With this aim in view we must establish common currency coefficients, taking into consideration the average expenditure needed to acquire a unit of currency. These coefficients should be applied in fixing home prices for export and import goods. In keeping with the new system, it is proposed to use three main categories of prices: officially fixed (stable) prices, flexible prices which can change within officially established limits, and free prices.

6. The independence of the state enterprises, their rights and duties derive from the fact that they are owned by, and accountable to, the state. We hold, then, that the state-owned enterprise should be run by a state-appointed director, with the personnel taking part in its affairs. State-owned enterprises are not self-managed, because they function in keeping with the economic policy of the state, in keeping with the interests of society. To ensure more effective control over the operation of the state-owned enterprises the Party recommends the setting up, where expedient, of inspection commissions in which, along with government officials, the workers of the given enterprise should be represented through their trade unions.

As to the co-operatives, where group ownership prevails, they should operate on the principle of self-management, and it is necessary to consolidate this principle, along with promoting their activities in the sphere of production and trade as modern enterprises. In a word, the principles of self-management should, in our view, be applied on a scale commensurate with the role the co-operatives play in the economic life of the country. As to the state-owned enterprises, we want a system of management which would help carry through the economic policy of the state and be based on well-developed public control.

7. The reform envisages the establishment—in the course of the future development of foreign trade—of organic ties between home and foreign markets. We are anxious to enlarge the influence of the foreign market on home production, marketing and distribution, the structure of exports and imports. However, our foreign trade cannot, in the future either, be a simple intermediary between the national economy and the world market. It will serve mainly as a means for carrying out the economic policy of the socialist state and for this reason effective centralised guidance of foreign trade will be established. Central bodies influence foreign trade primarily through economic me-

dia. A close economic tie-up between production, imports and exports will be the chief method for transforming the foreign trade mechanism. In certain cases it will have to be linked up with production or home trade, also organisationally. We shall retain the specialised foreign-trade agencies while simultaneously enlarging the volume of direct export and import by big manufacturing and commercial enterprises.

8. Gradual concentration of productive forces will be continued under the new system, but at the same time opportunities will be created for reasonable economic competition between the enterprises in the interests of the national economy and of the consumers. This means that we shall continue to encourage mass production wherever it is advantageous to do so also from the commercial point of view; moreover, we think it will be expedient to permit the manufacture of a whole variety of goods not only by a few big producers, but by a larger number of enterprises. This would result in competition which could be regulated and kept within limits by the state; it could be carried on so long as its socio-economic advantages outweigh the likely losses arising from duplication in production or on the market. It is in the interest of society that we should have competition between the enterprises, particularly in the area of consumer goods.

9. The system of material incentives envisaged by us presupposes that for a long time to come profit should be the goal of the socialist-owned enterprises and the criterion for judging their performance. Profit reflects in a generalised way the dynamics of the ratio between the inputs and outputs and this is done through the market as a result of evaluation and control by society; hence profit can be a generalising, synthetic indicator of the performance of the enterprise. Needless to say, the social aim of our socialist production is not profit, but maximum satisfaction of the needs of society. But we need a mechanism under which the striving for bigger profit on the part of individual enterprises would be an effective means of achieving maximum satisfaction of all requirements, i.e., the requirements of society as a whole. Our idea is to create conditions in which the actual profits obtained by an enterprise would determine the possibility for its expansion and at the same time greatly influence the earnings of its employees. The state takes a definite part of the profits as tax for public use. The enterprises use the rest for development purposes, for adding to reserves and personal income funds and for socio-



cultural needs. The personal income fund is used in two ways: for paying bonuses during the year and distributing a share of the profits at the end of the year, and for raising the wages in certain conditions. Better pay for better work is the principle of our system of incentives.

10. We want to develop the system of incentives in the agricultural co-operatives by gradually raising some of the purchasing prices, thus providing the co-operatives with greater financial independence. An important task of the state is to use its influence to secure a proper correlation between personal income and accumulation, to reduce the excessive income disparity in co-operatives working in different conditions. The way in which the income is distributed will be for the co-operatives to decide. Our idea is that the income of co-operative members (fixed by the co-operatives according to the size of the distribution fund) should consist of: (a) remuneration, i.e., payment of a guaranteed share of the income during the year, and (b) an additional share of the income paid at the end of the year. We think it necessary to have closer links between farms in the matter of specialisation, marketing, joint capital investments and in other areas. The establishment of local unions of production co-operatives wherever this is necessary should help towards this end.

11. The reform envisages enhancing the economic independence and responsibility of the local councils. The task of the councils is to promote the development of towns and the public services. We want to ensure that measures taken by the councils in the course of this work should be obligatory for all the local enterprises and institutions, co-operatives, public organisations and individual citizens. The councils should be granted wider powers and greater independence in planning and fulfilling their functions. Greater financial independence for them presupposes substantially increasing their share of local revenues, while reducing their state subsidies. The size of the latter should be determined in keeping with more objective criteria than at present and calculated for a longer period of time. Council finances will in the future consist of two parts: allocations for maintaining state-subsidised organisations, and a development fund from which money will be allocated for investment.

One important political question associated with the reform is how it will improve the life of the people. The Central Committee stressed in its decision that we adhere to the basic

concept of our policy as regards the standard of living, namely, that steady growth of production and productivity of labour must be accompanied by a steady rise in the standard of living.

As a result of the socialist reconstruction of agriculture the following question comes to the fore: how correct is the correlation of the real per capita incomes of the two main classes—the working class and the peasantry? At present the real per capita income of the peasants is about 80 per cent of that of factory and office workers taken together and about 90 per cent of that of the workers at the bench. This can be considered acceptable as a temporary ratio because the average level of income of the peasantry has risen considerably. But our aim should be gradually to raise the average real income of the peasant to that of the worker. This is in keeping with the worker-peasant alliance and it is also in the interest of rational utilisation of manpower. Needless to say, this evening up cannot be accomplished overnight. It will depend on the growth of labour productivity in agriculture.

While raising the standard of living we must combat the erroneous, mechanistic interpretation of equality as wage-levelling. It is necessary to differentiate wages depending on professional skill and on the quality of the work done. This is a matter of actual wages, not of wage scales, because the latter are already duly differentiated. Another aim is to ensure that the wages should to a much greater extent depend on the efficiency of collective labour in the enterprise. The system of remuneration should take into consideration the efficiency of not only individuals but also of whole bodies of workers, and this will become an important principle of socialist distribution of income. The question of managerial personnel should most likely be considered separately. Managers of enterprises which work better should receive bigger bonuses than at present, while deductions should be made from salaries in case of bad, unprofitable operation.

It is economically necessary and politically expedient that the level of wages (and with it, real wages) should rise faster than at present. The present 1-1.5 per cent annual increase militates against a wage policy stimulating growth of labour productivity and better quality. From 1968 onwards the rate of increase should exceed, as a rule, 3 per cent. In the matter of retail prices we should continue to strive for proper stability. However, we should bear in mind the possibility of slight increases in the annual level of retail prices, mainly because

of changes in the structure of consumer goods and services and partly owing to a freer movement of prices. In view of this, prices and wages policies should be properly co-ordinated to ensure that the wages rise faster than prices.

In connection with the decisive step we are taking we had to ask ourselves: is centralised planning compatible with market relations? Can these factors operate simultaneously and at the same time effectively? The answer is provided by experience. Centralised planning has existed in our country for almost two decades. However, in recent years we have allowed for the gradual development of market relations.

Our experience fully bears out the need for and the vital importance of centralised planning. Socialist planning has facilitated rapid economic development, while socialist ownership of the means of production has enabled us to plan in a centralised manner the vital branches of the economy and the utilisation of resources. The predominance of socialist relations of production proved indispensable for effective centralised planning. It has also been confirmed that the state can formulate and implement an effective economic policy conforming to the interests of society only on the basis of a centralised plan. On the whole centralised planning has proved successful, and it will remain a decisive factor of economic guidance.

At the same time, as we know from experience, the economic processes in the enterprises cannot be completely planned and directed from the centre—on the one hand, because in an advanced industrial society the changes taking place in everyday practice are so numerous and diverse that no centralised plan could possibly embrace or regulate all of them, and on the other, because change is always taking place in economic life: in technology, in consumer demand, in natural conditions, on the foreign market. It follows that in a socialist economy too it is necessary to distinguish between the macrosphere of economic activities, i.e., the sphere where all national-economic processes are regulated, and the microsphere, i.e., the sphere of the enterprise. It would be wrong to lump the two spheres together, to regard the entire national economy as a single huge enterprise and to run it as such.

What decisions should be included in the centralised plan and which of the processes should be left for the market to regulate?

The centralised plan should deal with such basic problems as the correlation between the share of consumption and that

of accumulation in the national income, the main areas of investment, technological progress in the various branches of the national economy, the basic proportions of the structure of consumption, greater participation in the international division of labour, changes in the distribution of the productive forces, the development of social and cultural institutions on a nationwide scale. It is here that we have the basis for economic regulation, for determining the framework and conditions in which the market mechanism operates.

The market mechanism, on its part, will see to it that supply is flexibly adjusted to demand, that the enterprises strive to utilise their resources as rationally as possible and fully meet consumer demand.

Consequently, it will not be a matter of centralised planning and the market existing independently of one another, as competitors seeking to oust one another. Rather it will be an arrangement whereby centralised planning will play the predominant role by regulating both the vital national economic processes and the market.

The question also arises whether it is possible to run the national economy without handing down the national plan to the enterprises in a centralised manner. Our studies and analysis show that this can be done and that guidance is in no way weakened, only its forms and methods change. The essence of the changes is to base centralised planning on a more effective and independent functioning of the enterprises.

As a result of the reform state guidance of the enterprises will not be as rigid as in the past, and will acquire a more general character since the system of direct guidance through plan directives will be replaced by regulation primarily by economic levers. This will make centralised guidance of the general national economic processes more effective. It would be wrong to think that the reform will weaken centralised guidance. On the contrary, our socialist state will be able to provide better guidance to those national economic processes which it is called upon to direct.

Now let us see what means of economic guidance the state will possess. First, as the owner of the enterprises it will be in charge of all activities associated with the establishment of new state enterprises, the appointment of managers (who will be accountable to it), and evaluation of the work of the enterprises. It will continue to take decisions on the most important capital investments, the size of bank credits for capital

investments, and on their allocation among the main projects, and to determine--through the tax system and regulation of profit distribution--the proportions in allocating the net social income of the enterprises. The state budget will remain an important instrument of guidance. Lastly, the state retains the right to carry out administrative regulation and issue administrative instructions.

These instruments at the disposal of the state will not, however, tie the hands of the enterprises in their day-to-day functioning. And since we are speaking about socialist enterprises, it is natural to expect them to have positive intentions, to recognise and observe the interest of the national economy. Only on this basis can we build a more effective system of management, for if we proceed from the assumption that the managers of socialist enterprises have bad intentions or lack experience this will lead to maintenance of methods characterised by administrative constraint and suspicion.

It would be equally wrong to think that under the new system the socialist state will not impose obligations on the enterprises. The latter will continue to have strictly defined duties—as regards proper utilisation of production capacities, the fullest possible satisfaction of the requirements of their clients, profitable operation, timely payment of all taxes, the transfer to the state of a fixed share of their profits. Besides, the state can, as hitherto, issue direct orders if it finds that the intentions of an enterprise run counter to public interests—for instance, the international obligations of the state. Therefore the present plan targets and the future economic regulations will in no way differ from each other in the sense of their being equally obligatory. The actual difference will be that while the obligatory plan targets concern some individual, particular processes, the economic levers will be used to encourage the enterprises to achieve better all-round performance.

During the discussion of the reform the question arose: will the total of factory plans reflect the national economic plan when the enterprises draft them independently, will not there be a conflict between factory plans and the national plan as a whole?

We must of course take into consideration that factory plans will not always be wholly in keeping with the targets of the national plan. But since the enterprises will draft their plans orienting themselves not only on the market, but also on state regulations and instructions based on the five-year plan and

categorically demanding that the enterprises proceed above all from the interests of the national economy as a whole, serious divergencies are not likely to arise, especially after the norms of the new mechanism have been in effect for several years and become well known. There will be no reason to fear serious conflicts, because factory plans can be made to conform to the main targets of the national plan. It may be that on some partial issues factory plans will deviate from the national plan. Two directions of these deviations are possible—unfavourable and favourable. However, as compared with the present system this will by no means add to the danger of the plan not being observed: even now gross output of enterprises in many respects differs from plan targets. The defect of our present system of management is that it cannot ensure strict observance of plans as regards cutting costs, raising the effectiveness of investments, maintaining stocks at a proper level and making foreign trade more profitable. That is why, beginning with 1957, we have been less rigid in our demands as regards breaking down the plan for individual enterprises. Moreover, it should be recalled that although we have long since stopped basing the guidance of co-operatives on obligatory apportionment of plan indices, to this day the co-operatives have in the main fitted in with the national plan—and this despite the fact that, as we know, local interests are stronger there than at state enterprises.

The general social features of the reform of the economic mechanism have evoked great public interest, particularly in connection with the prospect of a better functioning of democracy. The reform is indeed of great importance from the viewpoint of further extension and, above all, deepening of socialist democracy. ,

Extension of democracy calls for a considerable decentralisation of decision-making. The greater independence of the enterprises and the local councils will provide much greater scope for local initiative. At the same time executives will be more responsible to the workers, the local authorities and public opinion generally. This change will be facilitated by the growing importance of the control over the executives exercised by the working people.

Socialist democracy will not only be extended thanks to the new economic system. It will influence economic management and the economy in general. Better conditions will be created for combating bureaucracy.

Extending socialist democracy necessitates enhancing the independence and responsibility of the local councils. The reform grants them greater autonomy and broadens their sphere of action in planning and carrying out local economic and political functions so that they can better co-ordinate and utilise initiative for local needs.

A much bigger role will be played also by the trade unions. As spokesmen for the workers the unions will have wide powers as the social partners of the factory managers and administrative organs.

Since the state enterprise is run by the state-appointed manager, problems of production and circulation fell within the latter's competence. In this respect the manager does not share duties and responsibilities with the trade union organisation. But he cannot perform his functions effectively without enlisting the co-operation of the unions, without systematically informing his workers about the state of things in the factory and the outlook for its further development, without relying on their conscious and active aid. An important function of the unions, in addition to safeguarding the interests of their members, is to achieve, through consultation, maximum harmony of the interests of the state and the people. Therefore the unions have the right to express their opinion and exercise the right of control on all questions pertaining to the rights of the working people and their conditions. As to measures related to wages and labour relations, the heads of state institutions and enterprises must consult the unions and reach agreement with them. An effective means of reaching harmony on major issues is provided by the system of collective agreements, which clearly define the rights and obligations of both manager and union committees.

Whenever the need for a control commission arises, the union as the representative of the bulk of the working people should be given a seat on this commission to be able to exercise its right of control.

In conclusion, a few words about the political aspects of the reform. The question arises: how will the reform affect the political institutions of our society, including the work of the Party?

The reform in no way affects the validity of the Marxist-Leninist principles on which the activities of our Party are based. But it will most likely call for considerable changes in the style of Party work. Many of our comrades want to

know how the Party will play its leading role when the reform becomes effective. The first thing we must do, in my view, is to see to it that the leading role of the Party is duly manifested in introducing the new mechanism. If we succeed in this, we will be able to say that the Party has really played its leading role, for this role requires that we from time to time approach the basic problems of our society in a new way, with a clear head and with new experience, that we tackle their solution creatively. The reform confronts us with precisely such a creative task.

Thus, in the coming period our Party will be called upon to carry out two tasks in the economic sphere: to ensure, through persistent political work, a correct understanding and successful implementation of the reform, and to go on improving the style of work and thus successfully play its leading role in the economic sphere in the new conditions as well.

## ECONOMIC DEVELOPMENT IN HUNGARY

### Area and Population

	1950	1960	1965
Area — 93,000 sq.km			
Average annual population (thousands)	9,338	9,984	10,148
Natural increase per 1,000 population	9.5	4.5	2.4

### Average Annual Growth Rates of National Income and Aggregate Output in Industry and Agriculture (%%)

	1951-1965	1951-1955	1956-1960	1961-1965	1966
National Income	5.8	6.3	6.6	4.6	6
Industrial Output	9.4	13.2	7.5	7.5	7
Agricultural Output	—	3.2	0.5	1.7	6.1

### Industrial Growth Rates in 1961—1966 (percentage change from previous year)

1961	1962	1963	1964	1965	1966
10	8	6	9	5	7



### Output of Key Industrial Items

	Units	1950	1960	1966
Electric power	000 million kwh	3.0	7.6	11.9
Oil	thousand tons	512	1,217	1,706
Pig iron	"	465	1,261	1,641
Steel	"	1,048	1,887	2,649
Machine tools	thousands	—	9.8	14.3
Radio sets	"	99	212	250
TV sets	"	—	139	298
Washing machines	"	—	144	179
Refrigerators	"	—	8.8	113
Sulphuric acid	thousand tons	67	178	403
Mineral fertiliser	"	39.8	102	299
Plastics and synthetic tars	"	—	9.9	31.5
Cement	"	797	1,571	2,601
Textiles	million sq.m	234	329	442
Sugar	thousand tons	180	381	436

### Growth of Average Monthly Wage in State-operated Industry and Industrial Co-operatives (1950 as 100)

	1955	1960	1965
Factory and office workers	165	219	239
Factory workers (state sector)	167	227	248

### Growth of Labour Productivity in Industry (1950 as 100)

1955 — 121

1960 — 146

1965 — 186

### Output of Key Agricultural Products (in 000 tons)

	1950	1960	1966
Grain and leguminous crops	5,615	7,121	7,730
Wheat	2,085	1,768	2,203
Barley	604	986	1,055
Maize	1,820	3,534	3,945
Sugar beet	1,640	3,370	3,569
Meat (slaughter weight)	628	816	929*
Milk	1,287	1,652	1,615*
Eggs, million pcs	995	1,848	2,393*

\* 1965 figures.

**Growth Rates of Aggregate Agricultural Output in 1960-1966**  
(percentage change from previous year)

1960	1962	1963	1964	1965	1966
-7.0	1.7	5.7	5.4	-4.4	6.1

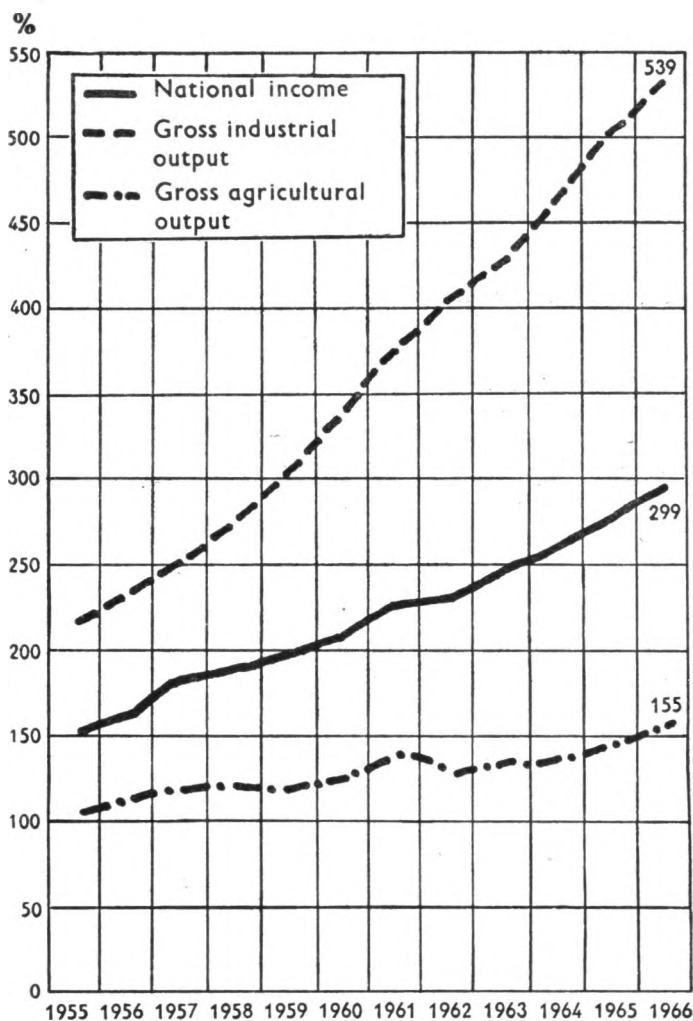
**Yields and Productivity**

	1950	1960	1966
Wheat yield, centners per hectare	15.2	16.8	21.7
Output per 100 hectares of farmland, in centners:			
meat	86	114	134
milk	175	231	232

**Education and Public Health**

	1950	1960	1965
per 10,000 population:			
university students	34.8	44.8	92.5
doctors	—	15.4	18.6
hospital beds	53	67	72

**The dynamics of the national income, gross industrial  
and agricultural output in Hungary**  
(in comparable prices; 1950 as 100)



## HUNGARY'S ECONOMY, 1966—1970

"To continue building developed socialist society, to augment the country's resources, to increase the national income in order to further the growth of material consumption and improve the living conditions and the cultural and social standards of the people." This was how the main goal of the new five-year economic development plan for 1966—1970 was defined in the report delivered by First Secretary Janos Kadar to the Ninth Congress (1966) of the Hungarian Socialist Workers' Party.

Under the plan the national income is to go up 19—21 per cent in five years. Accelerated development of industry, whose share in the gross national product is to increase, will continue. By 1970 industrial output is to expand 32 to 36 per cent, with the growth rate of consumer production approaching that of capital goods. This will meet the consumer demand more fully and, at once, enlarge exports. Eighty per cent of the industrial accretion is to derive from higher productivity of labour.

Agricultural output is to rise 13—15 per cent.

The planned expansion of industry and agriculture is to improve the nation's standard of living. Plan targets provide for a 9—10 per cent rise in real wages and a 14—16 per cent rise in real incomes. Social security benefits for members of producer co-operatives are to go up to the level of those of wage-earners.

Higher labour productivity and greater production will by 1970 make possible a reduction of the working week in industry from 48 to 44 hours.

# New Trends in Poland's Economic Planning

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STEFAN JEDRYCHOWSKI

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A meeting of the Central Committee of the Polish United Workers' Party convened last July to discuss planning and management trends for 1966—70 ushered in a new stage in the effort to improve organisation and methods in this sphere. This effort began as far back as 1956, when the emphasis was shifted from strict centralised planning and management, under which many functions were concentrated in the State Planning Commission, to a search for new, flexible forms more in line with the level of development of the productive forces and the socialist production relations, offering wider scope for initiative at enterprise level and making for more efficient management. At that time the rights of the enterprise as the basic economic unit were defined. More attention was paid to cost accounting. Workers' self-management bodies were established in the enterprises and given broad powers with regard to planning and control over the affair of the enterprise. The so-called factory fund to provide additional incentive to the workers and directly dependent on the performance of the enterprise was established. The central administrations which had stood above the enterprises and enjoyed the rights of government departments were reorganised into economic amalgamations operating on a cost-accounting basis. The power of the enterprises, amalgamations, ministries and the Central Planning Board were redefined.

Already at that time the relations between enterprises were being put on a contractual footing, and arbitration introduced as a means of settling disputes between them. Consumer de-

mand was made the basic criterion in deciding what range of goods an enterprise should put out; in other words, factories were to work mainly on orders from buyers. In case the enterprise did not find a market for products included in the plan, its production targets could be adjusted accordingly.

In order better to correlate the structure of production with demand, the relations between distributors and producers were revised. Trade organisations now exert the decisive influence on the structure of production. Commodity exchanges have been set up, and representatives of trade and industrial enterprises hold regular meetings. Twice a year national fairs are organised, at which retail trade enterprises too can place orders directly with the producers. To keep industrial enterprises properly informed of the needs of the market, special retail shops selling only their goods have been opened. These enable the manufacturers to conduct independent market research and to offer the consumers goods not available through the ordinary trade network.

In the sphere of material and technical supply, the old system of distribution has been gradually replaced with transactions of a commercial type with a view to economically expedient utilisation of resources in this sphere.

At the same time economic management in the localities was decentralised. The range of activity of the local councils—first the regional and then the district, urban and rural community authorities—was gradually extended both in the various areas of administration and in the economic sphere. Guidance of agriculture and supervision of the small state-owned and co-operative industry, retail trade, roads and motor transport, housing and public utilities, primary schools and most vocational schools and public health, have been transferred to the local councils.

Planning of capital construction has been decentralised and divided into four categories—centralised investment, investment by industrial amalgamations, by enterprises, and by administrative bodies—according to the character and dimensions of the undertakings. Planning of capital construction has been made more flexible, with the addition of several types of investments financed from the funds of the enterprise or by bank credits.

Planning in agriculture has been simplified and made more flexible. Indirect methods are being used with regard to private farmers, such as, for example, contracts for purchase of

their produce, advantageous prices for this produce, credits, tax and obligatory procurement concessions, and also planned supply of tractors and other machines, insecticides, selected seed and building materials. Obligatory deliveries of milk have been abolished. Other obligatory deliveries (grain, potatoes and meat) have been fixed at the present level, which means that the share of obligatory deliveries in the total output for the market will steadily decline as farm production grows.

In 1959 an agricultural development fund was set up to provide means for the purchase of tractors and other machines by the farm pools functioning in most villages. This fund is financed from state revenue accruing from the difference between the prices paid for obligatory deliveries and the prices of free state purchase of products, which amounts to 4 million zlotys a year.

The methods of planning on the state-owned farms too have become simpler. These farms are now free to determine the volume and range of production. Only the deliveries of basic products, the general financial guidelines, the ceiling for capital construction and the volume of the wage fund are determined from above.

Much has been done in the past five years to regulate the normative foundations of planning and cost accounting.

In mid-1960 the system of wholesale prices in industry was radically reorganised, with the result that the deficit formerly shown by whole branches, primarily in the sphere of producing means of production, has been abolished. The new prices are designed to cover the average social cost of production and to provide a certain margin of profit. The pricing system has been reorganised and the following groups of prices established: 1) retail prices paid by consumers; 2) selling prices charged by the enterprises to trade organisations and other customers; the latter differ from retail prices by the sum of the distribution charges added at various levels; 3) factory prices in some branches of industry; these are the average prices for the branch, equalling production cost plus average profit; the difference between these and the selling prices is the equivalent of the turnover tax paid by the enterprise or, in the case of production at a deficit, the subsidy received from the state; 4) clearing prices corresponding to factory prices but differentiated for individual enterprises in the given branch of industry, depending on their production costs (these

prices are used only in some branches of industry); 5) comparable prices used only for determining the cost of the gross output with a view to measuring the dynamics of production; 6) procurement prices, for which co-operative or state enterprises purchase agricultural products from the peasants.

An inventory of fixed assets has made it possible correctly to determine depreciation rates and hence to assess more exactly the national income and net investment, besides putting plans for capital repairs on a proper footing. This inventory is important from the standpoint of cost-accounting since it provides reliable data on the value of the fixed assets; previously the various components of these assets, having been entered into the books at different times, did not find uniform reflection in our accounting system.

In recent years much has been done to ascertain the production capacities of the enterprises and the degree of their utilisation.

With a view to strengthening the element of economic expediency in planning, large-scale research on returns has been started, primarily in the sphere of investment and foreign trade.

Steps have been taken also to improve planning and co-ordination of research and technological development. A new co-ordinating centre—the Committee of Science and Technology—has been set up and a comprehensive, thematic approach adopted to planning research.

Of late, extensive work has been done to classify products in the engineering industry. Three classes have been established, depending on the technical level of the output.

Despite appreciable progress in improving planning and management, we still have many shortcomings which, basically, can be listed as follows:

- (1) too many directive indices limiting initiative by the enterprises; in 1956–59 their number decreased considerably, but later, owing to certain economic difficulties, the trend was reversed, especially as regards employment and the wage fund;

- (2) use of the gross output index as the basis for planning the labour force and the wage fund and as the point of departure for readjustments in these areas arising from overfulfilment of production plans; this approach has retarded the growth of labour-intensive production and economy of materials, and at the same time has hampered the work of adjusting the range of output to the demand;



[3] excessive rigidity and overstraining of plans, insufficient reserves to guarantee their fulfilment; obstacles arising from the periodic character of plans (difficulties encountered in passing over from one period to another);

[4] the lack, both in the system of planning and management and in the working of the enterprises, of levers and incentives tending to raise the quality and technical level of output and to promote technological progress and production for export.

Proceeding from a critical examination of the system of planning and management and its shortcomings and drawing on the broad discussion of these issues which preceded it, the meeting of the Central Committee charted a comprehensive programme of changes in planning and management.

These changes are aimed at ensuring the continuity and greater flexibility of planning (observing, of course, the principles of centralised planning), reinforcing its scientific foundations, greater use of cost accounting at all levels of planning and management, reducing the number of directive indices, perfecting the target indicators, heightening the role of the enterprises and amalgamations in compiling plans, enhancing the role of economic levers and incentives in the process of fulfilling the plan and in current management, greater flexibility in financing the enterprises and amalgamations, more independence for the amalgamations as economic units uniting the enterprises, observance of the principles of economic expediency by the amalgamations and more extensive co-ordination of economic activity. Moreover, special attention is being paid to improving the economic and organisational conditions stimulating foreign trade. Work to improve planning and management is to be continued on the basis of extensive economic experimentation.

Greater continuity and consistency in planning will be achieved through a system of interconnected plans—a long-range plan for a period of 15-20 years, and five-year and annual plans. Some years ago work was started on a long-range plan, which will cover the period up to 1985, subject to verification and elaboration in detail every five years. It is a blueprint designed to be constantly revised and containing variants of solutions providing a basis for successive five-year plans.

Both the long-range and five-year plans will be compiled on the basis of the programmes for technological and organisational reconstruction of the various branches of industry

now being worked out by the amalgamations of enterprises (these programmes also cover the general investment trends), as well as the territorial technical and organisational reconstruction plans and programmes for different parts of the country. To make planning more consistent, tentative guidelines for the two years following each five-year period will be worked out simultaneously with the elaboration of the five-year plan. In working out annual plans the basic indices will be outlined for the following year as well.

A new method, first introduced in the first half of this year when compiling the five-year plan, will be used. It consists in the enterprises drawing up alternative variants of the targets handed down by the ministries and amalgamations. The alternative drafts will enable the personnel of the enterprises to take an active part in tapping reserves, thereby stimulating initiative on the part of the workers, engineers and technicians. They will make for better utilisation of production capacities, rational changes in the structure of production, more effective adaptation of output to the needs of the home and export market, and for greater efficiency in general.

More flexible planning will be based on production to fill orders or contracts between enterprises—a principle which is already enforced. In order to remove the above-mentioned obstacles to better correlation of production with social needs—obstacles arising from incorrect planning of the labour force and wage fund—in the next two or three years the gross output index used so far will be replaced with indices essentially approximating to net output, such as standard labour input or processing cost indicators.

In branches with uniform types of production where the range does not change too frequently, output will be measured in natural units or converted into equivalent units allowing for differences in quality and grade. In branches of this type where production depends on inter-factory co-operation, the so-called gross production turnover will be used as an index. In addition to the cost of the finished article, it will include also the cost of the semi-finished goods produced by the enterprise to meet its own needs.

More flexible planning also calls for a system of reserves ensuring fulfilment of plans regardless of external and internal difficulties. These include both balance reserves in the sphere of investment and wage fund, the income-expenditure balance of the population, the sphere of material and technical supply,

agricultural production and foreign trade, and actual reserves not intended to be drawn on in the course of working on the plan, such as, for example, the central currency reserve or the state reserve of basic raw materials. Whenever economically expedient, planned reserves of production capacities will be created in some branches of the manufacturing industry, as well as reserves in the sphere of transportation, loading and storage facilities.

In order to make planning more flexible, the directive indices of plans will be reduced and made less detailed. In particular, the number of output items covered by planned directives is to be reduced. The wage fund, too, will be defined in lesser detail. The more thrifty the approach to utilisation of the wage fund becomes, the less need will there be to set limits to the size of the labour force. It has been decided to abolish restrictions on employment and the wage fund in the sphere of public and agricultural services.

The reduction of the number of goods covered by directive targets is accompanied by further departures from the old system of distribution of materials, machines and equipment. Moreover, the system of material and technical supply is being simplified and made more flexible (for example, orders are filled much faster than before, more and more items are sold directly at the warehouse to meet buyers' urgent needs). As regards financial planning, the directive indices of accumulation and lowering of production costs applied so far will be replaced by the returns index expressing the ratio of profit to cost of production, or the rate of profit, i.e., the relationship of profit to the fixed and circulating funds. Profitability will be the main synthetic criterion of the functioning of the enterprise.

The Central Committee resolution provides for further improvement of the system of prices and more flexible utilisation of this system as a means of influencing demand and supply. At the same time, the shaping of price policy remains in the hands of the state, which operates through agencies independent of the enterprises and amalgamations. The aim of retail price regulation is to increase the consumption of goods whose production is stepped up in accordance with the national-economic plan (for example, durables, synthetic fibres and plastics). On the other hand, price policy will be directed at doing away with unwarranted disproportions between profit levels and putting an end to production for the market at a loss.

The latter possibility will be countenanced only if justified by reasons of a social or economic order. In such cases the government will cover the deficit. To make retail prices more flexible, wider use will be made of a three-stage price structure for goods affected by the factor of fashion or novelty: when first put on the market, a higher "novelty price" is fixed for such articles; at the mass production stage the basic price goes into effect, and when the article goes out of fashion it will be offered at clearance-sale price. Differentiation depending on the season will be practised more widely than hitherto.

Along with greater resilience of retail prices, the state will seek to ensure stability in the cost of living.

As regards selling prices of means of production the object is to achieve a correlation between prices of interchangeable goods that will stimulate the use of the more economical types and better co-ordination of these prices with the terms of sale and delivery. Prices should more consistently reflect the use-value of goods, especially up-to-dateness and quality. In the case of new articles showing an improvement over the old and costing relatively little to produce, the sale price should be made attractive to the consumer while ensuring a bigger return to the producer. It is along these lines that continued perfecting of the system of sale prices should proceed.

Simultaneously with making better use of retail and wholesale prices as economic levers, the system of factory prices will also be improved.

Hitherto factory prices were used chiefly to determine the amount of turnover tax and for the settlement of accounts between the enterprises and the foreign trade organisations. These prices will now play a bigger role in planning output and the cost of production, and especially in providing incentives. In all cases where economic stimuli were hitherto associated with the total accumulation (i.e., profit including turnover tax), they will now be linked to profit alone. It is proposed to use factory prices to stimulate modernisation of output. They should make for greater profitability of the more modern types of output measuring up to the best world technical standards, and thus cover the cost of launching their production. Factory prices should be reduced progressively as the items in question become obsolescent and fall below world standards.

Changes in the system of financing should make for greater

flexibility in the management of the enterprises and amalgamations and greater stability of the conditions of their operation. The purpose of the changes is to ensure that the enterprises use their funds to finance first the building of reserves, and only after that, capital investments. This will prevent them from accumulating excessive or unnecessary reserves. A plant which accumulates such excess reserves and encounters financial difficulties may obtain bank loans but at a higher rate of interest.

The changes are likewise aimed at the percentages of profit channelled to the development fund, the factory fund and the amalgamation being determined for no less than two years ahead, with a view to eventually extending this term to five years. The same applies to the principles for the distribution of profits at amalgamation level (between deductions for the state budget and the various funds of the amalgamation). This should serve to ensure more stable conditions for the operation of the enterprises.

More far-reaching changes are contemplated in the system of financing capital investments. Hitherto capital investments were financed chiefly from the state budget. It is now proposed that in future only investments of primary importance will be financed directly from the state budget. Other centralised investments will be financed through bank credits to be repaid with state subsidies granted after the completion of the project in question. Less important investments at amalgamation or plant level, i.e., for replacement of buildings and plant, modernisation and small-scale expansion, will be financed by the factories and amalgamations themselves from their own funds, plus bank credits. Such investments will not be specified in detail in the national plan, which will indicate only the total sum for the given years, allowing for a margin of 5-10 per cent in excess of this figure in the course of fulfilling the plan. The amount will be regulated through credits.

A new feature is the deduction of a percentage from fixed assets wherever accumulations allow for this and where it is expedient to do so in order to stimulate economic activity. These deductions will be made from net fixed assets, that is, minus depreciation. The percentage deductions will be reflected in the balance sheet of the enterprise concerned, showing reduction either in profits or in the turnover tax. The purpose of the deduction of a percentage of the fixed assets is to stimulate their more effective use.

In the sphere of construction the purpose is to find new production indices that would more accurately reflect the work of the enterprise. Very important in this connection will be the changes in the system of accounting between the building and installation enterprise and the client. In general construction it is planned to settle accounts upon completion of the project, while in industrial construction accounting in three or four stages will be practised for the next few years. Settling accounts upon completion will do away with the need to grant credit to the client. Construction work will be financed out of the turnover funds of the building and installation enterprise or out of the funds it has procured at the bank.

More flexible planning in the sphere of foreign trade will be achieved by setting the Ministries and amalgamations import and export targets in terms of foreign exchange value. This will make it easier to adjust the range of exports and imports to the needs of the economy and the price trends on foreign markets and, consequently, increase foreign trade returns.

The decision of the Central Committee provides for further improvement of the system of individual and collective incentives for factory and office workers. We are referring, in particular, to wages, the factory fund, the bonus fund for non-manual workers, etc. The latter fund was reorganised last year with a view to using it as a means of stimulating fulfilment of priority targets. Bonuses are paid according to the points rated in carrying out definite jobs. The point scales are worked out three months ahead.

In the future the underlying principles of using the factory fund will be less complicated. The fund's receipts will depend on the extent of the factory's efficiency; as regards bonuses paid from this fund to individual workers or entire groups, the principle will be roughly the same as in the case of the above mentioned bonus fund for non-manual workers.

A more complex task, and one that will take some time to carry out, is that of regulating the wages system. In the process of accomplishing this task increasing importance will be attached to the quality of the goods produced. This is being done in the iron and steel industry, in forge and foundry shops, and also in the chemical and pulp and paper industries. Wherever possible, measures stimulating economy of materials will be given consideration in the wages system.

The changes in the system of management are aimed at

strengthening the role of the industrial amalgamations as economic organisations and achieving the consistent realisation of aims set forth as early as 1958. The amalgamations will stimulate the performance of enterprises by means of economic levers such as, for example, different rates of distribution of profits and of deductions for the factory development fund, the budget and the factory fund, clearing prices corresponding to the specific conditions of the enterprises, by setting up joint organisations in the sphere of technical servicing, selling, transportation, etc. In accordance with performance, the amalgamations will open certain funds, such as a reserve fund and an investment fund and also, if necessary, a fund for joint undertakings.

Enhancing the role of the amalgamations will necessitate certain changes in the powers and method of work of the ministries, with emphasis on long-range planning, technical guidance, etc., rather than on current managerial functions.

Along with enhancing the role of the amalgamations and basing their work on economic principles, inter-branch and territorial co-ordination of industry will be extended. This form of voluntary co-ordination of the operation of enterprises coming under the jurisdiction of different organisations but producing the same or similar items, has proved most successful. The purpose of the inter-branch co-ordination is to overcome organisational obstacles, promote specialisation and co-operation between factories of the same industry, secure the proper distribution of goods and optimal use of production capacities, build up a selling and supply network, and to organise mutual technical aid. Territorial co-ordination under the local councils aims at promoting joint exploitation of power resources, use of warehouses and other facilities, joint building of power stations, etc.

It is also planned to promote such forms as patronage over enterprises and amalgamation of allied enterprises. With a view to greater concentration many plants will be amalgamated into a single enterprise.

The decisions of the Central Committee do not claim to have exhausted all the possibilities for improving economic guidance. They chart the direction and principles of further experimentation in the national economy, calling, in particular, for the introduction of centralised mathematical processing of data with a view to optimal planning. The results obtained in the course of the experimentation will be carefully analysed

and the direction and forms of further research and experimentation defined accordingly.

The programme for improving planning in 1966-1970 will act as a new incentive furthering the harmonious development of the national economy and its better management.

## ECONOMIC DEVELOPMENT IN POLAND

### Area and Population

	1950	1960	1965
Area — 312,500 sq.km			
Average annual population (thousands)	24,824	29,703	31,496
Natural increase per 1,000 population	19.1	15.0	10.0

### Average Annual Growth Rates of National Income and Aggregate Output in Industry and Agriculture (% %)

	1951-1965	1951-1955	1956-1960	1961-1965	1966
National Income	7.1	8.6	6.6	5.9	7.4
Industrial Output	11.4	16.2	9.9	8.5	6
Agricultural Output	—	1.0	3.7	3.2	5.5

### Industrial Growth Rates in 1961-1966 (percentage change from previous year)

1961	1962	1963	1964	1965	1966
10	8.5	5.5	9	9	6

### Growth of Average Monthly Wage in State-operated Industry and Industrial Co-operatives (1950 as 100)

	1955	1960	1965
Factory and office workers	198	306	348
Factory workers	204	314	365



### Output of Key Industrial Items

	Units	1950	1960	1966
Electric power	000 million kwh	9.4	29.3	47.4
Coal	million tons	79.5	107.2	129.3
Pig iron	"	1.4	4.3	5.6
Steel	"	2.5	6.7	9.8
Rolled stock	"	1.7	4.4	6.6
Machine tools	thousands	3.8	22.5	32.6
Tractors	"	4.0	8.7	26.2
Radio sets	"	116	627	626
TV sets	"	—	171	413
Refrigerators	"	—	37.7	335
Sulphuric acid	thousand tons	285	685	1,139
Mineral fertiliser	"	160	477	826
Plastics and synthetic tars	"	3.5	55.4	135
Cement	million tons	2.5	6.6	10.0
Textiles	million sq.m	591	942	1 209
Sugar	thousand tons	955	1,365	1,530

### Growth of Labour Productivity in Industry (1950 as 100)

1955 — 158

1960 — 221

1965 — 285

### Growth Rates of Aggregate Agricultural Output in 1960—1966 (percentage change from previous year)

1960	1962	1963	1964	1965	1966
5.4	—8.3	4.1	1.2	9.9	5.5

### Output of Key Agricultural Products (in 000 tons)

	1950	1960	1966
Grain and leguminous crops	12,605	15,181	16,723
Wheat	1,888	2,303	3,468
Rye	6,488	7,878	7,791
Sugar beet	6,377	10,262	13,593
Potatoes	36,130	37,855	46,757
Meat (slaughter weight)	1,318	1,751	2,001*
Milk	8,256	12,658	13,439*
Eggs, million pcs	3,400	5,589	6,244*

\* 1965 figures.

### Yields and Productivity

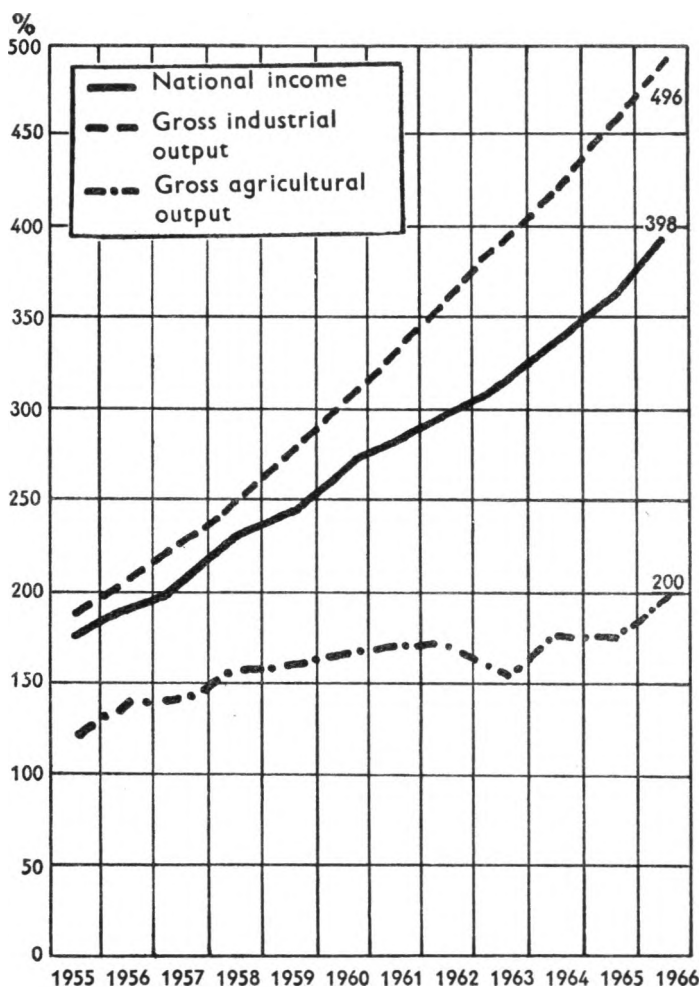
	1950	1960	1966
Wheat yield, centner per hectare	12.8	16.9	21.5
Output per 100 hectares of farmland, in centners:			
meat	64.5	85.8	100.3*
milk	404	620	674 *

\* 1965 figures.

### Education and Public Health

	1950	1960	1965
per 10,000 population:			
university students	49.9	55.7	79.9
doctors	4.6	12.7	16.2
hospital beds	51	70	74

**The dynamics of the national income, gross industrial  
and agricultural output in Poland**  
(in comparable prices; 1950 as 100)



## POLAND'S ECONOMY, 1966—1970

The main task set in the five-year plan for 1966-1970 by the Fourth Congress of the Polish United Workers' Party is to secure progressive proportions and activate still untapped potentialities in order to achieve a higher rate of economic development.

The plan embraces not only the economy, but also culture, science and all the other aspects of Poland's development in the coming five years.

The national income is to go up 34 per cent, with accumulation accounting for 25.6 per cent of it instead of the previous 25.3. This will push up the share of capital investments from the previous 17.1 per cent to 18.7 per cent. All in all, capital investments in the five years will total 840 000 million zlotys.

Industrial output is to climb 43.6 per cent, the annual growth rate being 7.5 per cent.

The accent is laid on the more progressive industries, with output of chemicals going up 80 per cent, electrical engineering 68 per cent and machine-building 60 per cent; the export industries are to expand output by 70 per cent. Production growth is to be coupled with better quality and higher technical standards, these two factors being the key criteria of work at factory level. The plan envisages modernisation of plant and use of latest scientific and technical achievements in industry.

High targets have been set in agriculture. Output of farm products is to increase 15.8 to 17.2 per cent. This growth will be secured by further intensification, chemicalisation and mechanisation, which are expected to push up the grain yield to 20-21 centners per hectare by 1970. Farming is to meet the food and raw materials demand with a view to terminating imports of agricultural products.

Industrial and agricultural expansion will keep the standard of living on the upgrade. By 1970 real wages are to increase 10 per cent, and measures are being taken to improve the quality of consumer goods and extend their range, a concomitant of rising living standards. The nation's housing is being improved, with state allocations for house-building alone amounting to 29 100 million zlotys. Allocations for education will increase by nearly 57 per cent, and for public health by 47 per cent.

# The Plan and the Market in the Socialist Economy

*In the process of building communism full use must be made of commodity-money relations in keeping with the new meaning acquired by these relations during the building of socialism.*—Programme of the CPSU.

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REM BELOUSOV

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One of the basic aspects of the economic reform now being implemented in the Soviet Union is the combination of centralised leadership and planning with the active role of the market and commodity-money relations. Instead of rigid regulation and tutelage over the enterprises, a flexible system of self-regulation is being created, making it possible to gear production programmes to consumer demand and to make the most rational use of resources.

Pursuing its Leninist policy of economic upbuilding, the CPSU has always sought to make full use of centralised management of the economy, which is one of the decisive advantages of socialism. The principle of centralised management stems not from the subjective desire of any group of people, but from objective necessity conditioned by the social ownership of the means of production. Consequently, the plan has always been and will continue to be a regulator of socialist production.

The system of planned management consists of a complex of measures providing for the purposeful regulation of production and its organisation in conformity with the objective economic laws. What is in question today is not the replacement of this system by a new mechanism, but its further improvement and extension through the inclusion of elements of self-regulation. This is fully in keeping with the tasks confronting the Soviet economy at the present stage.

The object of state planning is basically a dual one: ensuring the proper balance in social reproduction and the optimal

use of all production resources. Both tasks have their general economic and specifically production aspects. Many nationwide and inter-branch and some internal proportions in the various industries can be regulated only on a national scale, in a centralised way. At the same time proportions bearing, for instance, on the range of consumer goods, types and sizes of rolled metal, diverse tools, the technical specifications of machines and other aspects of direct interest to the consumer can be determined by the various branches of industry or even by individual enterprises.

Optimal planning is complicated by the fact that with the growth and consolidation of the economy the number of possible variants in both the production and the consumption spheres is multiplying rapidly. Who is to choose the best variant and on what criteria should the choice be based?

In the past nearly all questions of production and capital construction were decided in a centralised way. Yet the most talented orchestra conductor cannot perform a symphony alone. But the planning bodies often relieved production executives of the need to decide even minor questions, forgetting their role as conductor and losing sight of the big problems involved in working out optimal plans. The emphasis on administrative methods in solving the countless problems arising in the enterprises was accompanied by the emergence of contradictions alien to the socialist mode of production.

In order to eliminate these contradictions it is proposed to draw a strict demarcation line between the functions of central bodies and those of the enterprises. Progressive structural changes in social production, inter-branch and inter-regional specialisation, elaboration of scientific and technological problems, training specialists and skilled workers and the creation of state reserves are some of the problems which should be solved on a unified basis on the scale of the economy as a whole, while optimal utilisation of production capacity and other resources in the enterprises and the establishment of rational links with supplier plants should be handled by the enterprise, drawing on the initiative of the working people.

Consistent observance of democratic centralism in planned management presupposes, then, two types of production regulation—centralised guidance, on the one hand, and on the other self-regulation at branch amalgamation and enterprise levels.

Both economic research and practical experience show that the best mechanism for the self-regulation of the enterprises is the market, commodity-money relations, organically integrated with cost accounting and material incentives.

Commodity-money relations, which are subordinated to the law of value, stimulate growth of labour productivity and help to gear the production structure to consumer demand. In the process the socially necessary expenditure of labour for one or another purpose is objectively determined. No producer can afford to ignore these labour expenditure ratios. He who works better, more rationally, earns additional income. The uneconomical producer, on the contrary, at once comes under the material pressure of the market, for he cannot recoup production costs exceeding the socially necessary level.

Ever since its establishment the Soviet state has sought consistently to use the market mechanism to increase efficiency of production and to strengthen the economy. Landmarks in this respect were the New Economic Policy of the early nineteen-twenties and the Party decisions of the thirties and in more recent years.

In the situation existing at the time, Lenin considered "stimulation of home trade properly regulated (directed) by the state" to be the link which had to be tackled with all resolve in order to lay a sound groundwork for transition to the next stage in socialist construction. True, there were times when the Soviet state assumed the functions of direct organiser of production and distribution of the basic items of output. The commodity integument of trade was either completely discarded (the policy of "war communism") or became so deformed that the economic content was distorted (obligatory deliveries of agricultural produce by the collective farmers in the thirties and forties). These departures from normal trade were due to extraordinary circumstances: the Civil War and the Second World War, the need to complete industrialisation within a brief space of time, and the pressures of post-war rehabilitation. In all these periods it became necessary to redistribute accumulation in favour of the heavy and defence industries, to mobilise all material, labour and financial resources and to concentrate them on the decisive sectors. To accelerate building up the key branches, the law of value was often not observed. This tended to place the emphasis on administrative planning, highly centralised management, and restriction of commodity-money relations. But this did

not remove the objective need to promote trade, to develop the market.

Social division of labour is, as we know, the cardinal factor in commodity production. The contradictions engendered by the dual character of labour, which Marx pointed to in his *Capital*, develop in the conditions of private property into a contradiction between the social and private character of the producer's labour.

Socialism radically changed both the goal and the conditions of social production and also the methods of regulating it. There is an unbroken connection between the initial and final stages of extended socialist reproduction. Yet, owing to the social division of labour, it retains its contradictory dual nature. True, the undivided domination of socialist ownership of the means of production creates an opportunity for resolving this contradiction by means of a new mechanism—planning. In this sense socialist planning is the antipode of the market. But the historical nature of the development of planning should be borne in mind: it begins with lower forms and methods regulating only some sectors of social production and gradually assumes more mature and universal forms. The capitalist market has a history of centuries behind it, whereas socialist planning came into being less than half a century ago. It has not yet reached its acme. Needless to say, this in no way detracts from its role and significance in the contemporary system of management.

The voluntarist view that the plan can solve all problems without reckoning with economic laws was subjected to criticism and rejected as erroneous some time ago. But to this day not all people take a sober view of the real possibilities of planning, believing that it can embrace and directly regulate all economic intercourse and all the diverse economic relationships in the country.

The point is not only the complexity of the task. There are also a number of objective reasons why it is impossible precisely to foresee all the proportions in the economy, especially for long periods ahead. For one thing, scientific and technological discoveries are attended by an element of chance, and because of this it is difficult, and at times impossible, to tell exactly when new types of machines or consumer goods will make their appearance. Hence one must either plan the production or introduction of existing designs and technology (and this often retards technological progress), or leave these



questions open for the time being. The situation is somewhat the same in prospecting for minerals. But perhaps the real conundrum for the planners is that posed by agriculture, which is heavily dependent on weather conditions. Harvest fluctuations tell on the rate of growth and ratios of social production generally. Finally, there is the elasticity of demand for consumer goods.

In all these areas more or less accurate prognostications are of course possible, but they are subject to adjustments in the course of the operationa of the plan. Adjustments in turn call for corresponding changes in the production programme, capital construction, trade, and in other sections of the plan. Even under the rigid system of planning which existed until recently the need for this was constantly felt. Although the programmes were handed down to enterprises only after considerable delay they required constant correcting. Because they were too cumbersome and suffered from too many flaws the organisational impact of the plans was greatly impaired. Needless to say, these shortcomings were the "infantile ailments" of planning.

It may be that in the future, as the transition to communist production relations goes on, improvement of the scientific aspect of planning and mechanisation and automation of the processing of information and computer operations will gradually lead to an effective and flexible system of regulating the production process without the agency of the market. Economic information will flow through special communication channels from consumers and producers to centres forming an integrated directing body. Here the information will be processed by electronic machines to produce an economicomathematical model of the state of the entire economy and its prospects, as well as a blueprint of the reciprocal links basic to the optimal ratios of social production and consumption. These links will be incorporated into a mathematical pattern and transmitted to the point of production. In this way production will be effectively regulated, while leaving a certain freedom for the amalgamations and enterprises to display initiative and, consequently, to regulate their own performance not under the impact of the market but on the basis of the impulses generated by the forward urge which will be an intrinsic feature of the free, creative labour of the members of communist society.

The transition to a system of this type is dependent on such

objective factors as the maturity of society and the level of the productive forces, including the various branches of science and technology. This, of course, is a matter for the future. There is no doubt that much time will be needed to evolve methods and forms of overcoming the contradictions inherent in the dual character of labour which would make it possible effectively to harness all the production units of society to ensure the maximum satisfaction of its requirements by making better use of existing resources without recourse to trade and the market. But until another and better mechanism is created commodity-money relations can be effectively used to make state guidance of the economy more flexible, to harmonise production with consumption.

The reasons for activating commodity-money relations at the present stage of building communism are many.

A new feature is the need, on the one hand, to invest huge sums in building the material and technological base of communism, and, on the other hand, to build up the considerable funds needed to raise living standards. This can be done only by increasing to the maximum labour productivity and the returns from social production as a whole, by making rational use of every ruble. The old methods of planning are no longer adequate; the question now is not so much mobilisation of resources as their optimal utilisation.

Moreover, the technological revolution demands that producers effectively adjust their programmes in keeping with scientific and technological progress. Here, too, the market comes to the aid of centralised planning inasmuch as promotion of wholesale trade in the objects and instruments of labour plus proper price formation and material incentives provide a powerful stimulus to keeping the production programme in step with the times, while making it possible to supply, without bureaucracy and red tape, the raw materials and equipment needed to turn out new types of machines. Enhancing the role of trade heightens the influence exerted by the consumer on production. So far this is one of the best ways of exercising control over quality and stimulating the output of technologically more advanced goods at lower cost.

Another important reason for greater emphasis on the role of commodity-money relations is the need to make production more sensitive to changes in market conditions when supply and demand tend to balance. In the past when the balance between the two was often disrupted (when funds for capital

investments exceeded the material resources and the money incomes of the population grew faster than the quantity of goods available) everything on sale was easily sold. More recently, however, owing to the better balance between supply and demand, the unwieldiness of the former methods of management has made itself particularly felt. Mostly this has been the case in light industry, where the stocks of many items showed excessive growth. In heavy industry, where technical supplies and materials are provided through centralised channels, this phenomenon makes itself felt indirectly, primarily in slower launching of new output and insufficiently rapid improvement of quality, although here, too, there are no few indications of difficulty in marketing certain items.

At present many socialist countries, the Soviet Union included, are striving to make use of the market mechanism within the framework of state guidance of the economy. Seizing on this, some bourgeois writers have begun to talk about a "retreat" from economic planning, about a "return to private enterprise" and revival of the so-called free market. This, however, is wishful thinking.

That the interests of the state, the public, the production collective and the individual worker should coincide is natural to the economic relationships under socialism and their commodity-money forms. Hence the market can be used as a factor facilitating self-regulation by the socialist enterprises. To produce goods not for the sake of the record but to make life better, to subordinate production to the requirements and interests of consumers, to make a thorough study of both social needs and the requirements of the population, and, on this basis, rapidly to readjust the output and to improve the quality of both the means of production and consumer goods—such is the purpose in utilising commodity-money relations in a planned economy.

In order to understand the essence of the socialist market it is necessary to remember that it is an important complement to the plan, that market regulation of production is effected under the overall control of the socialist state. The following passage from a letter by Lenin to the engineer Krzhizhanovsky concerning the interaction of the New Economic Policy and centralised planning may be cited in this connection: "... The New Economic Policy does not change the unified state economic plan or transcend its bounds, it changes the approach to the realisation of this plan."

As can be seen from this letter, even at a time when production was influenced through commodity-money relations not only by the socialist sector but also by small producers and even by capitalists, Lenin held that the New Economic Policy, directed though it was at stimulating trade and the market, must remain within the framework of the plan.

The leading role of the state in guiding the socialist economy is effected through direct and indirect influence on economic development, including the market. The production machinery and the accumulated capacity, are, as we know, the material base of social production. On this machinery depend the volume and proportions of the output. In the new conditions the central bodies remain in a position directly to influence the inter-branch structure of production capacity inasmuch as they have at their disposal a substantial share of the funds available for capital investment,, long-term credits, material and financial reserves and also other methods of direct regulation of growth rates and ratios on a national scale.

The state indirectly influences social production through a system of economic levers—prices, profit, credit, premiums and other payments. These levers are highly specific instruments of planned management. On the one hand, they are active elements of either the market mechanism or the system of cost accounting which links them with the material interests of the public. On the other hand, they are objective economic imperatives which enter as a component the various indicators of the state plan. Use of these levers enables the state bodies economically to regulate the functioning of working collectives, relying not so much on their authority and the law as on the material interest of the working communities themselves, and directing the latter so as to ensure conformity between the general economic and inter-branch proportions and the needs of the whole of socialist society. In these circumstances the plan and the market constitute a dialectical unity based on the fundamental coincidence of the economic interests of all participants in socialist commodity production. Hence there are no grounds for counterposing the plan to the market as some economists tend to do. The plan and the market are inter-connected and mutually conditioned economic categories. The dependence of the market on the plan is obvious, but at the same time a plan which does not take cognisance of market demand is a poor one. Development

of commodity-money relations under socialism does not detract from the role of the plan; on the contrary, it enhances the efficacy of planning, for with the new approach plans rest on objective criteria, not on subjective wishes. This makes planning far more realistic and heightens its impact on the economic processes.

On the other hand, greater economic independence of the enterprises and the development of commodity-money relations in no way imply passive submission to the requirements of the market. The market should be organised and anticipated, in other words, planned. This is not a new approach. The 11th All-Russian Conference of the Communist Party held shortly after the establishment of Soviet power posed this task: "Proceeding from the existence of the market and reckoning with its laws, it is essential to master it and, by means of systematic considered economic measures based on precise assessment of the market processes, to undertake the regulation of the market and currency circulation." Forty-five years have passed since then. There is hardly any need to point out that today we are in a far better position to undertake the regulation of the market on the basis of a thorough study of its requirements, on the basis of planning.

After abolishing the economic basis of capitalist competition—private ownership of the means of production—the socialist system retained two inter-connected and inter-active factors of the market mechanism which play the decisive role in commodity-money relations. One of these is the connection between supply and demand, and the other, the level, structure and correlation of prices. But under socialism these factors are subject to the influence of the state plan.

The important thing is to balance supply and demand. In practice this means that the total volume of commodities offered should be realised and that the consumer should be able to buy everything he needs. In other words, there should be, first, equilibrium in terms of value between supply and demand, and, second, the structure of the goods offered should coincide with the structure of the demand. The first task is solved by the central planning bodies; solution of the second largely depends on the market. Needless to say, both tasks are two sides of the same medal. To separate them artificially is as unjustified as it would be to counterpose the plan and the market to each other. The Soviet Union and other socialist countries have a good deal of experience in planning the con-

sumer market through drawing up balances of income and expenditure by the population. And elaboration of analogous balances for the capital goods market is the job of the day. Determination of the general correlation of supply and demand is a matter for the central planners. Market demand is, of course, taken into account, but there are substantial openings here for the state to influence the market.

Formerly it was up to the central planning bodies to balance the supply and demand structure. Practice has shown, however, that it is well-nigh impossible to do this through centralised channels. The structure of supply and demand, overall balance notwithstanding, often fell short of the mark because the physical nomenclature of the commodities produced did not coincide with the concrete requirements of the public. Since it is impossible for a single centre to plan the vast assortment of goods turned out, it is now proposed to let the market play the decisive role. Direct contract relations between producers and consumers, between production and trade, is the best way to orientate the producer to turn out goods of types, sizes and quality required by the consumer. In other words, by watching the market the enterprises will be best able to ensure a balance between supply and demand.

Moreover, stable contract arrangements between producers and consumers provide a basis for realistic planning at enterprise level. As a result plans for both the various branches and the economy as a whole will reflect the actually existing supply and demand.

An important feature of the operation of the market in the conditions of a planned economy is state control over the movement of prices. This control should be aimed at, first, ensuring equilibrium between the general levels of supply and demand as well as their structures, and, second, maintaining the structure and correlation of prices at a level making it advantageous for the enterprises to produce the range of goods needed by the public and also to improve their quality, a level, moreover, which would provide an incentive to consumers to give preference to newer lines of output.

If the monetary system functions normally, price formation acts as an important co-ordinating agent in balancing supply and demand. Economically unjustified changes in prices may upset the balance, with a corresponding effect on both producers and consumers. As we see it, however, disproportions

on the market are by no means always caused by incorrect price levels and correlations. In this connection it will be of interest to examine the operation of the market mechanism when its principal components are not in proper relation to one another.

An excess of demand over supply has been a feature of our economy in recent years. This can happen in two cases. Firstly, when there is more money in the hands of consumers than there are commodities available. At times some specific need of the economy cannot be fully met at the existing level of production. For instance, although Soviet industry has in the last seven years increased the output of steel tubing 1.7-fold, taking first place in the world for volume of output of this item, there is still not enough piping available for oil and gas pipelines. Owing to the shortage the rate of growth of these branches of the fuel industry is retarded.

Can a balance be achieved between supply and demand in this case by increasing prices? Formally it can. With investments in building oil and gas pipelines remaining fixed, higher wholesale prices on pipes will reduce demand for them, but this does not essentially improve the situation. Clearly, equilibrium should be achieved not through the agency of the market and prices, but through centralised planning of proportions between branches, primarily by properly correlating material and technical supplies with the volume of accumulation on the scale of the entire economy.

What usually happens, however, is excess of demand over supply in situations when the items in short supply can be replaced by others, but for the consumer the technological use or operation of the substitute is less economical. Because of this there is greater demand for the original item. A disproportion seems to appear, although actually the shortage is due to violations of economically justified ratios between the prices of interchangeable items. This was the cause at one time of a shortage of gas and a surplus of coal in the Donbas; since the price of gas was lower than that of coal dust, the power station switched to gas and there was an overstocking of coal dust at the pits.

Since prices are decisive in making interchangeable items of different quality equally advantageous to use, this problem can be solved through the mechanism of the market, which can effect a balance between supply and demand by stimulating the most effective utilisation of substitutes.

In connection with the need for state control over prices the question arises: should the state fix prices as rigidly as hitherto?

As past years have shown, this is an extremely complex problem. The socialist countries are now searching for new ways of resolving it. In some countries (Hungary and Czechoslovakia) a more flexible system of prices is envisaged. The prices of the essential goods will continue to be fixed by the central bodies. For some goods there will be contract prices fluctuating within limits set by the state. Finally a substantial part of the commodities will be sold at uncontrolled prices based on agreements between producers and consumers. The Hungarian Socialist Workers' Party, for instance, stresses in its decision on economic reform that direct regulation of prices by the state should be limited to a minimum range of goods. But the stipulation of a necessary minimum in itself underscores the controlling role of the state in price formation.

From what has been said it will be clear that strengthening commodity-money relations in the conditions of the socialist economy makes for a fuller utilisation of the advantages of the socialist mode of production and heightens the effectiveness of state plans. Public ownership of the means of production unites all producers and enables the socialist state not only to control the market, but also to stimulate with its aid technological progress, rational use of production resources and growth of returns from social production. In the final analysis the object in using the market mechanism in a planned economy is to ensure an all-round rise in the material well-being of all working people.



# ECONOMIC DEVELOPMENT IN THE USSR

## Area and Population

	1950	1960	1966
Area — 22,400,000 sq.km			
Average annual population (thousands)	180.1	214.2	234.4
Natural increase per 1,000 population	17.0	17.8	10.9

## Average Annual Growth Rates of National Income and Aggregate Output in Industry and Agriculture (%%)

	1951-1965	1951-1955	1956-1960	1961-1965	1966
National Income	8.9	11.3	9.2	6.4	7.5
Industrial Output	10.7	13.2	10.4	8.6	8.6
Agricultural Output	—	4.1	6.0	2.1	10

## Output of Key Industrial Items

	Units	1950	1960	1966
Electric power	000 million kwh	91.2	292.3	545
Coal	million tons	224.5	442.5	517
Oil	"	37.9	147.2	265
Pig iron	"	19.2	46.8	70.3
Steel	"	27.3	65.3	96.9
Rolled stock	"	18.0	43.7	76.6
Machine tools	thousands	70.6	156	191
Tractors	"	117	231.5	382
Grain harvesters	"	43.3	59.0	92
Passenger cars	"	64.6	139	230.2
Radio sets	millions	1.1	4.2	5.8
TV sets	"	—	1.7	4.4
Washing machines	"	—	0.9	3.9
Refrigerators	"	—	0.5	2.2
Sulphuric acid	million tons	2.1	5.4	9.4
Mineral fertiliser	"	1.2	3.3	8.4
Plastics and synthetic tars	thousand tons	64.8	293	971
Cement	million tons	10.2	45.5	80
Textiles	000 million sq.m	3.4	6.6	7.8
Sugar	million tons	2.5	6.4	9.7

**Industrial Growth Rates in 1961—1966** (percentage change from previous year)

1961	1962	1963	1964	1965	1966
9	10	8	7	8.6	8.6

**Growth of Average Monthly Wage in State-operated Industry and Industrial Co-operatives** (1950 as 100)

	• 1955	1960	1965
Factory and office workers	111	130	147
Factory workers	111	131	147

**Growth of Labour Productivity in Industry** (1950 as 100)

1955 — 143

1960 — 177

1965 — 249

**Output of Key Agricultural Products** (in '000 tons)

	1950	1960	1966
Grain and leguminous crops	81.2	125.5	170.8
Wheat	31.1	64.3	100.4
Rye	18.0	16.4	13.1
Barley	6.3	16.0	27.8
Cotton	3.5	4.3	6.0
Sugar beet	20.8	57.7	73.8
Meat (slaughter weight)	4.9	8.7	10.8
Milk	35.3	61.7	75.8
Eggs, 000 million pcs	11.4	26.6	31.6

**Yields and Productivity**

	1950	1960	1966
Wheat yield, centners per hectare	8.1	10.6	14.3
Output per 100 hectares of farmland, in centners:			
meat	10	17	18.2*
milk	73	123	134 •

• 1965 figures.

**Growth Rates of Aggregate Agricultural Output in 1960—1966**  
(percentage change from previous year)

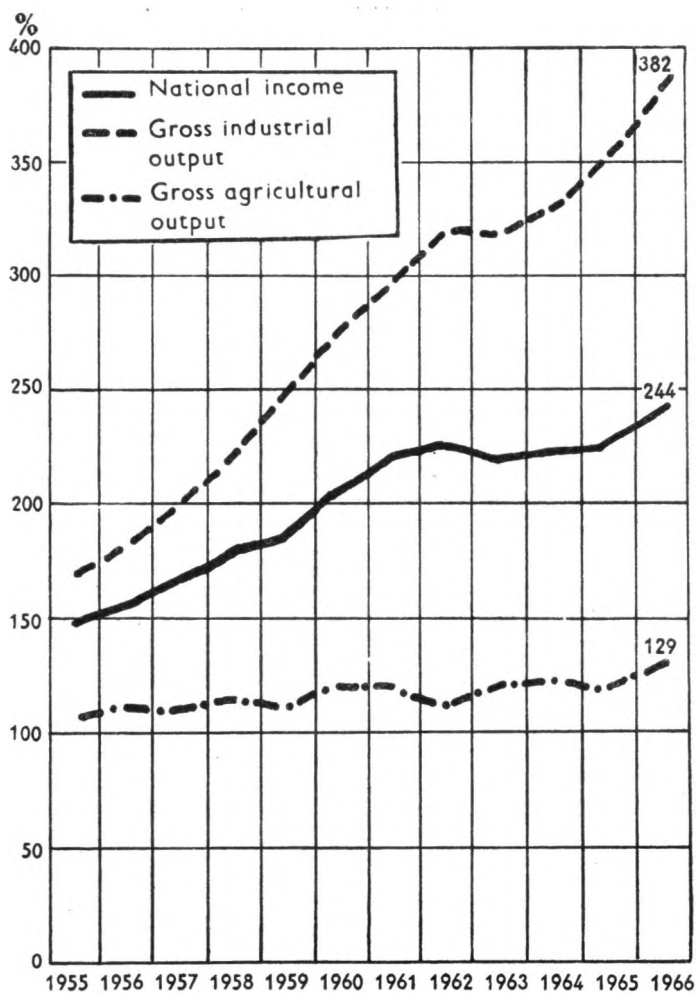
1960	1962	1963	1964	1965	1966
2.5	1.2	-7.1	14.0	1.1	10

**Education and Public Health**

	1950	1960	1966
per 10,000 population:			
university students	68.7	111	176
doctors	14.6	20.0	24.7
hospital beds	56	81	99

# **The dynamics of the national income, gross industrial and agricultural output in the Soviet Union**

(in comparable prices; 1950 as 100)



## ECONOMY OF THE SOVIET UNION IN 1966—1970

The Directives of the Twenty-Third Congress of the CPSU for the five-year economic development plan of the USSR for 1936—1970, read:

*"The 23rd Congress of the CPSU considers that the new five-year plan is designed to secure a considerable advancement of our society along the path of communist construction, a further development of the material and technical basis, and an expansion of the country's economic and defence potential. The Party believes that the main economic task of the next five years is to secure a further considerable growth of industry and high stable rates of agricultural development through the utmost utilisation of scientific and technical achievements, industrial development of all social production and the enhancement of its efficiency, and greater labour productivity and thereby to achieve a substantial rise in the standard of living and fuller satisfaction of the material and cultural needs of all Soviet people."*

In the five years, the national income will go up 38-41 per cent, industrial output about 50 per cent, average annual output of farm products 25 per cent, and real incomes per head of population 30 per cent.

The new five-year plan is centred on the socio-political objective of further aligning the standards of urban and rural life, removing the socio-economic and cultural distinctions between town and country and thereby cementing the alliance of the working class and peasantry, the unity of the entire Soviet people; of utilising rationally the manpower resources in all parts of the country and securing all-round economic headway in the Union republics.

The transition of industry to the new system of planning and economic stimulation introduced by the September 1965 Plenary Meeting of the CC CPSU is to be completed by 1970.

The main tasks in industry are to enhance the efficiency of production, elevate its technical standard, improve its structure, introduce technically new products and improve quality, so as to supply all economic branches more amply with the latest means of production and the population with a wider range of consumer goods meeting the mounting requirements of Soviet people. Improvement of the structure of industry as a whole is envisaged through further expansion of heavy in-

dustry. The power industry, machine-building, chemical industry and metallurgy are to be expanded at priority rates. Labour productivity in industry is to rise 33-35 per cent.

In 1970, Soviet industry will produce 830 000-850 000 million kilowatt-hours of electric power, 345-355 million tons of oil, 124-129 million tons of steel, 220-230 thousand machine tools, 700-800 thousand passenger cars, 7.5-7.7 million TV sets, 5.3-5.6 million refrigerators, etc.

The main task in agriculture is to increase considerably output of crops and animal products in order to meet more fully the mounting food demand and the industrial demand for raw materials. Average annual production of grain is to be 30 per cent greater than in the previous five years. Intensification is envisaged in all branches of farm production. The supply of mineral fertilisers and farm machinery is to increase substantially and the electric power per farm worker ratio is to expand threefold. More machinery means higher productivity of labour, which is expected to rise 40-45 per cent.

Expanding material production will further a steady improvement of the standard of living. Wages are to rise not less than 20 per cent and incomes of collective farmers in cash and kind (from only the co-operative farm) by an average of 35-40 per cent. Cash stipends and benefits to the population out of the public consumption fund will go up at least 40 per cent and house-building will expand 30 per cent.



Price: 3 Kčs